Report of the
Auditor General of Canada
to the House of Commons

Matters of Special Importance – 2000
Foreword and Main Points

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Cat. No. FA1-2000/3-0
ISBN 0-662-65340-8

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

Speaker of the House of Commons

I have the honour to transmit herewith my annual Report of 2000 to the House of Commons, to be laid before the House in accordance with the provisions of subsection 7(3) of the *Auditor General Act*.

L. Denis Desautels.

L. Denis Desautels, FCA
Auditor General of Canada

OTTAWA, 20 December 2000

Foreword

Report of the Auditor General to the House of Commons for December 2000

Foreword

I am pleased to present the December volume of my 2000 Report. This Foreword is followed by "Matters of Special Importance – 2000" and the Main Points from all of this year's chapters. This volume of my Report contains the following 18 chapters:

18. Governance of Crown Corporations
19. Reporting Performance to Parliament: Progress Too Slow
20. Managing Departments for Results and Managing Horizontal Issues for Results
21. Post-Secondary Recruitment Program of the Federal Public Service
22. Development of the Universal Classification Standard: A Follow-up
23. Information Technology: Acquisition of Goods and Services
24. Federal Health and Safety Regulatory Programs
25. Canadian Food Inspection Agency – Food Inspection Programs
26. Health Canada – Regulatory Regime of Biologics
27. Canadian Nuclear Safety Commission – Power Reactor Regulation
28. Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29. Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30. Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31. Fisheries and Oceans – Fleet Management
32. National Defence – Defence Support Productivity: A Progress Report
33. Follow-up of Recommendations in Previous Reports
34. Other Audit Observations
35. Sustainable Development Strategy for the Office of the Auditor General

My Office issued the first volume of the 2000 Report in April, containing 9 chapters, and the second volume in October 2000, containing 8 chapters.

In addition, this year my Office has provided:

- an auditor's report and observations on the Financial Statements of the Government of Canada;
- an auditor's report and observations on the Statement of Transactions of the Debt Servicing and Reduction Account; and
- some 90 auditor's reports and observations on federal Crown corporations, federal departmental corporations and other entities; territorial governments, corporations and other entities; and international organizations.

In 1999-2000, my Office completed special examinations of Standards Council of Canada, National Museum of Science and Technology, Canada Development Investment Corporation, Export Development Corporation, Marine Atlantic Inc., Old Port of Montreal Corporation Inc., Canada Deposit Insurance Corporation, Enterprise Cape Breton Corporation, National Gallery of Canada, Freshwater Fish Marketing Corporation, Queens Quay West Land Corporation and Royal Canadian Mint. Further, in the subsequent period from April to October 2000, my Office also completed special examinations of Laurentian Pilotage Authority, Canadian Diary Commission, Canadian Broadcasting Corporation and Canada Lands Company Limited.

Under section 11 of the *Auditor General Act*, I may undertake, from time to time, assignments at the request of the Governor in Council. In 2000, we received the following requests under this section:

- Inquire into the Yukon Workers' Compensation Health and Safety Board.
- Inquire into and report on the accounts and financial transactions of UNESCO, including any observations with respect to the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of the organization, for three consecutive fiscal years commencing in the year 2000-2001.
- Audit, each year, the annual financial statements of the Canadian Nuclear Safety Commission.
- Inquire and report on the reconciliation referred to in article 23 of the Sales Tax Collection Agreement between the Government of Canada and The Kamloops Indian Band.

Matters of Special Importance – 2000

L5

Table of Contents

Page

Main Points 4

Improving Performance in Government Spending 7

The stewardship of public funds deserves increased attention 7

Four Basic Principles of Public Spending 9

All Government Spending Should Have Parliament's Sanction 10

Government Spending Should Be Managed With Probity and Efficiency 12

The Value of Government Spending Should Be Measured By What It Achieves 14

Government Spending Programs Should Remain Current 15

Recent government pronouncements on spending practices are commendable, but follow-through is key 16

A Strong Foundation of Values and Ethics Can Support Prudent Spending 17

Incentives Should Be Harnessed to Pull in the Right Direction 19

Conclusion 21

Exhibits

1. Some Fundamental Rules for the Public Service 10
2. Components of an Ethical Framework 17

Supplement: Other Matters

Reforms in human resource management have not met expectations 22

Financial management capabilities in departments fall short of what is needed 22

Performance reporting has improved but progress has been slow 23

Education system fails Indian children on reserves 23

Health and safety regulatory programs face difficult challenges 24

Governance of Crown corporations has improved but can be made better 24

Opportunities for cost savings 25

Matters of Special Importance — 2000

Main Points

Each year in this chapter I highlight issues I consider especially significant. In this, my tenth and last such chapter, I concentrate on the question of how we might improve the management of government spending. I discuss four basic principles that should be informing spending decisions and practices in a parliamentary system of government like our own:

- **All government spending should have Parliament's sanction.** Parliamentary control of finance has been described as the bedrock of responsible government. It is based on two central precepts of parliamentary democracy — namely, that the government should not raise money without Parliament's approval, and it should not spend money except for purposes authorized by Parliament. Compliance with parliamentary authority is a minimum requirement that must be met by any disbursement of public funds.

- **Government spending should be managed with probity and efficiency.** This principle recognizes the fact that public money is money held in trust for the benefit of all Canadians. As a consequence, the government has an obligation to ensure that the money is managed prudently in support of the general public interest. It also means that the government must seek to obtain maximum value for the dollars it spends.

- **The value of government spending should be measured by what it achieves.** Historically the tendency has been to justify government programs more by the resources they used than by the results they produced. But governments don't create programs in order to spend money; they establish programs to deliver services that improve the lives of Canadians. That is why they need to manage for results.

- **Government spending programs should remain current.** The resources available to government change over time. So do public needs and preferences. To ensure that public spending is allocated to the uses that are most valued, the government needs to evaluate its programs regularly and assess whether they are still relevant, effective and affordable.

While these principles may appear self-evident, they are nevertheless too frequently breached. I therefore also discuss how a strong framework of values and ethics and appropriately structured incentives can help to ensure that these principles of public spending are observed.

In a supplement to the chapter, I address other matters of ongoing interest:

- reforms in human resource management in the public service;
- financial management capabilities in government departments;
- progress in performance reporting by government departments;
- weaknesses in the education system for Indian children on reserves;
- challenges facing federal health and safety regulatory programs;
- shortcomings in the corporate governance of Crown corporations; and
- opportunities for cost savings identified by our audits.

Background

Despite the retrenchment and cutbacks of the past decade, spending by the federal government remains at historically high levels — roughly $175 billion a year. How well this money is spent is clearly of great interest to the taxpayers, who bear the cost, and to the public at large, on whose behalf the spending takes place.

In my 10 years as Auditor General, I have seen significant improvements in the management of government spending, often made under the pressure of fiscal constraints. But progress has been slow, and there have been relapses as well. Year-end surges in spending, expenditure commitments without adequate planning or control, insufficient effort to recover moneys owed the Crown — these and other indications of a failure to make the best use of resources are still encountered with disquieting frequency in the federal public sector.

Why do these problems seem so intractable? Why do they persist year after year, despite express commitments to set them right? What can be done to close the gap between promise and performance in the way government handles taxpayer money? These are the questions that motivate my discussion in this chapter.

Vision

We are committed to making a difference for the Canadian people by promoting, in all our work for Parliament, answerable, honest and productive government that reflects a commitment to sustainable development.

Mission

The Office of the Auditor General of Canada conducts independent audits and examinations that provide objective information, advice and assurance to Parliament. We promote accountability and best practices in government operations.

Elaboration of Mission

In achieving our mission,
we want to make a difference by promoting:

- *a fair and frank accounting of government's stewardship of financial and other resources;*
- *efficiency and productivity in the public service;*
- *cost effectiveness of government activities; and*
- *collection of revenues owed to the Crown.*

Other effects we want to produce
through our work are:

- *objective assurance on matters found to be satisfactory and unsatisfactory;*
- *compliance with authority; and*
- *deterrence of fraud and dishonesty.*

Improving Performance in Government Spending

Each year in this chapter I highlight issues I consider especially significant. This is my tenth and last such chapter: my 10-year mandate as Auditor General comes to a close at the end of March 2001. In February, I plan to present a "capstone" report to Parliament to coincide with the end of my mandate. That report will provide my perspective on some key management problems facing the federal government, the role of legislative audit and its evolution over the past 10 years, and the efforts my Office has made to identify problems and seek reform in central agencies and in program delivery.

Despite honest efforts and repeated commitments to improvement, expenditure management in the federal public sector is still not as good as it should be and can become.

In this chapter I want to concentrate on a theme that is central to our Office and dear to my heart: how to improve the way **spending** is managed in the public sector. Despite honest efforts and repeated commitments to improvement, expenditure management in the federal public sector is still not as good as it should be and can become. To this end, I set out some basic principles that should be informing spending decisions and practices in a parliamentary system of government like our own, and I draw out some of their implications. I also discuss how a strong framework of values and ethics and appropriately structured incentives can help to ensure that these principles of public spending are observed.

The stewardship of public funds deserves increased attention

Despite the retrenchment and cutbacks of the past decade, spending by the federal government remains at historically high levels — roughly $175 billion a year. How well this money is spent is clearly of great interest to the taxpayers, who bear the cost, and to the public at large, on whose behalf the spending takes place.

Earlier this year, the disclosure of serious shortcomings in the management of grants and contributions at Human Resources Development Canada (HRDC) created a major stir. Public reaction was strong because the amounts involved were large and also, I believe, because years of rising taxes and shrinking or stagnating household budgets have made the public even more sensitive than usual to lax spending practices in government. The issue received wide publicity in the news media and was intensely debated in the House of Commons. But shortcomings of the sort revealed at HRDC — vague and inconsistently applied eligibility criteria, breaches of authority, absence of an appropriate control and accountability framework — are by no means exclusive to one program or one department. We observed shortcomings of a similar nature (though of a lesser magnitude) in our 1996 audit of the Canada Infrastructure Works program, our 1997 audit of The Atlantic Groundfish Strategy and our 1998 audit of grant and contribution programs in Industry Canada and the Department of Canadian Heritage. I can cite other examples over the years, but these will suffice to make my point that spending in government is not always conducted with the care and prudence that taxpayers have a right to expect.

Canadians are justifiably upset by such disclosures. They may agree with Justice Oliver Wendell Holmes that taxes are the price we pay for civilization, and not begrudge the high taxes they pay to finance necessary public services. But they get upset and angry when they see their tax dollars squandered or used with less care and prudence than they must use to make ends meet in their household budgets. Frankly, I share their frustration. It is discouraging to witness new incidents of waste and mismanagement crop up hydra-like after older ones have been discovered and dispatched.

Spending in government is not always conducted with the care and prudence that taxpayers have a right to expect.

In my 10 years as Auditor General, I have seen significant improvements in the management of government spending, often made under the pressure of fiscal constraints. But progress has been slow, and there have been relapses as well. Year-end surges in spending, expenditure commitments without adequate planning or control, insufficient effort to recover moneys owed to the Crown — these and other indications of a failure to make the best use of resources are still encountered with disquieting frequency in the federal public sector.

Why do these problems seem so intractable? Why do they persist year after year, despite express commitments to set them right? What can be done to close the gap between promise and performance in the way government handles taxpayer money?

If these questions were easy to answer, we would not need to revisit them so often. But after 10 years of looking close up at government spending, I believe we can do better and should resolve to do so. The core of this chapter discusses how this might be done. The section that follows sets out a number of principles that ought to guide spending decisions in government.

Subsequent sections of the chapter discuss means of reinforcing the principles through appropriate structures of incentives and ethics. As in previous years, issues that are not directly related to the theme of the chapter (in this case, ensuring prudent spending in the public sector) but that I consider important are reported in a supplement to the chapter.

Four Basic Principles of Public Spending

Public administration at the federal level in Canada has undergone huge changes over the past decade. As in many other countries in the developed world, there has been a marked shift away from the traditional bureaucratic emphasis on detailed control from the centre and preoccupation with process toward more autonomy for departments and a focus on results. The shift to results-oriented management has been driven by a desire to harness the enterprise and judgment of public sector employees and empower them to improve performance. At the same time, however, the weakening of traditional controls can increase the risk of error, misjudgment or abuse.

The downside risks of empowerment can be minimized if some key principles are applied to help guide action and set limits on the exercise of discretion.

Reverting to the old rule-bound systems is not an answer to this dilemma. In today's information age, top-down, command-and-control approaches do not work — if they ever did. The downside risks of empowerment can be minimized if some key principles are applied to help guide action and set limits on the exercise of discretion in the new, decentralized environment of the public sector.

My 1992 Report stressed the need for appropriate safeguards to accompany the devolution of authority in the public sector. Drawing on parallels with private sector firms, the Report suggested that a set of fundamental rules be instituted to frame the boundaries of decision making by public servants. A clear set of ground rules within which discretion can be exercised, the Report contended, can help to minimize unwanted risks while encouraging innovation by providing more certainty about what employees may do.

The rules my 1992 Report suggested are shown in Exhibit 1. The list is not exhaustive; other examples can be added. To work, the rules would have to be well understood. They should therefore be codified and communicated throughout the public service. I still believe that this would help to minimize unwanted risks in government activities.

These rules, and others like them, can be captured in a small number of principles rooted in our parliamentary system of government and in the government's fiduciary obligation to Canadians for the management of public funds. I discuss four such principles here:

- All government spending should have Parliament's sanction.
- Government spending should be managed with probity and efficiency.
- The value of government spending should be measured by what it achieves.
- Government spending programs should remain current.

While these principles may seem self-evident, they are apparently not clear enough to have prevented breaches of each one of them, as I note below. I believe that further emphasis on guiding principles and fundamental rules would reduce the incidence of such breaches in the future.

I also discuss procedures and practices that flow from these principles. The procedures and practices may vary over time; the principles themselves remain constant. They can give direction to specific processes and inform appropriate conduct.

Exhibit 1 — Some Fundamental Rules for the Public Service

- Do nothing illegal. Uphold the spirit and letter of laws and regulations.
- Act within your delegated authority.
- Act in a politically neutral manner.
- Act impartially, honestly and fairly.
- Don't waste public money.
- Safeguard assets.
- Respect the core values of your organization.
- Make service standards visible.
- Realize the productive potential of all resources entrusted, especially people.
- Don't make decisions that commit significant public resources without proper authority.
- Document risk acceptance.
- Account for the discharge of responsibilities and achievement of agreed performance.
- Get authority for waiving a fundamental rule.

Source: Report of the Auditor General of Canada, Chapter 4, 1992.

All Government Spending Should Have Parliament's Sanction

Parliamentary control of finance has been described as the bedrock of responsible government. It is based on two central precepts of parliamentary democracy — namely, that the government should not raise money without Parliament's approval, and it should not spend money except for purposes authorized by Parliament. These precepts, the achievement of centuries of struggle between the Crown and the Commons in England, were already well established at the time of our Confederation in 1867. When the original provinces got together to establish a form of government "similar in Principle to that of the United Kingdom," they incorporated these precepts in the *Constitution Act, 1867*. The principle that Parliament is the custodian of the public purse has thus been part of Canada's constitutional landscape since the country's inception.

The principle that Parliament is the custodian of the public purse has been part of Canada's constitutional landscape since the country's inception.

Over time, a number of specific practices were developed to put this principle into effect. Since 1951, those practices have been brought together under a single act of Parliament, the *Financial Administration Act* (*FAA*). The Act makes the Treasury Board responsible for overall control of public spending and each minister responsible for the legality and probity of spending in his or her department. It also sets precise conditions that govern payments out of the Consolidated Revenue Fund — the account into which, by law, all government revenues are credited. Specifically, the payments must:

- be authorized by a warrant signed by the Governor General (*FAA*, section 28);
- conform to a plan approved by the Treasury Board (section 31);
- not exceed funds appropriated for the purpose by Parliament (section 32); and
- be requisitioned by a minister or authorized officer in a form prescribed by the Treasury Board (section 33).

Where payments are for services or goods received, the responsible departmental officer must certify before payment is made that the performance conditions were met. For grants and contributions, the officer must certify that the recipient is entitled to the payment (section 34).

These provisions of the *FAA* establish minimum requirements for the disbursement of public funds — there are no short-cuts around them. Yet breaches of these provisions, while infrequent, still occur. In our audit of HRDC earlier this year, we found instances of payments made without required approvals or before project commitments had been met. The audit found that payments had been approved by staff who lacked the delegated authority to do so and who often did not review whether claims for payment were supported by the requisite information. The point of the *FAA* provisions is to ensure that government spending is in compliance with parliamentary authority and consistent with enunciated government policies. Failure to adhere to them normally signals further weaknesses in the way a program is managed and run.

For related Auditor General work, see: 2000 Chapter 11 Human Resources Development Canada —Grants and Contributions; 2000 Chapter 17 Other Audit Observations —Parc Downsview Park Incorporated and Public Works and Government Services Canada; 1998 Chapter 27 Grants and Contributions: Selected

Programs in Industry Canada and Department of Canadian Heritage; 1997 Chapter 13 Health Canada —First Nations Health; 1996 Chapter 26 Canada Infrastructure Works Program —Lessons Learned; 1994 Chapter 12 Aspects of Federal Real Property Management; 1993 Chapter 25 Parliamentary Control over the Raising of Revenues by Fees.

Government Spending Should Be Managed With Probity and Efficiency

This principle recognizes the fact that public money is money held in trust for the benefit of all Canadians. As a consequence, the government has an obligation to ensure that the money is managed prudently in support of the general public interest. It also means that the government must seek to obtain maximum value for the dollars it spends. Common sense and good management practices suggest a number of conditions that need to be in place if these fiduciary obligations of the government are to be met. They include appropriate program design, adequate capacity to run each program, and effective systems of internal control.

Public money is money held in trust for the benefit of all Canadians.

Appropriate design. Legislation normally provides only general direction and outlines of spending plans. Departmental managers are then responsible for designing specific programs to achieve the legislation's intent. They need to define clearly the desired outcomes and set priorities; choose appropriate mechanisms and instruments to deliver the program; and identify potential risks and means to manage them.

Haste makes waste. The Northern Cod Adjustment and Recovery Program offers a good example. Established in 1992 to provide relief to fishers and plant workers affected by the moratorium on cod fishing, the program was rushed into operation before proper eligibility criteria and appropriate financial controls had been established. As a result, payments were made to many people who were not affected by the moratorium; and contrary to the program's intent, people who had left the fishery were drawn back to it. Spending the time and the resources it takes to establish a workable, effective plan for running a program is an investment worth making.

Adequate capacity to run the program. Does the program have enough resources to achieve the desired results efficiently? Are they allocated optimally across the tasks involved in running the program? Having adequate capacity in place is a manifestly basic ingredient of program success, but one not always present in government departments. As we reported in October, inadequate capacities for financial management and control at HRDC in the wake of the cutbacks and reorganizations of the mid-1990s were factors that contributed to the mismanagement of several programs in that department. Similarly, our 1996 audit of the Canada Pension Plan (CPP) disability program concluded that the sharp increases in CPP disability payments during the previous decade had occurred in the absence of sufficient capacity to analyze trends in benefit payments, manage eligibility assessments, and review files systematically to identify ineligible beneficiaries. Establishing huge spending programs and then in effect putting them on auto-pilot is clearly not consistent with the principle of seeking to maximize value for the taxpayer's dollar. A program worth doing is worth doing well. Inadequate resources or resources poorly deployed can undermine the effectiveness of the program and lead to waste, loss of trust and erosion of support for the program.

Establishing huge spending programs and then, in effect, putting them on auto-pilot is clearly not consistent with the principle of seeking to maximize value for the taxpayer's dollar.

Effective internal control systems. Internal control refers to the methods and procedures used by management to ensure that decisions are carried out properly, risks are managed, transactions recorded, performance monitored and results reported: in short, everything it takes to ensure that the program is running as it should.

An integral part of an effective internal control system is a strong audit function, one that tests the credibility of performance measurements and provides assurance that the management framework for achieving program objectives is operating as intended. In government-wide audits completed in 1993 and 1996, we found weaknesses in the internal audit functions of many departments. Since then, disproportionate cutbacks in the government's internal audit, evaluation and review functions have eroded them further. In HRDC, for example, the internal audit staff was reduced from 54 in 1994-95 to 33 in 1999-2000. As Treasury Board standards recognize, internal audit is a fundamental tool of effective management. Treating it as a frill or an afterthought can put an organization at risk.

For related Auditor General work, see: 2000 Chapter 3 Citizenship and Immigration Canada —The Economic Component of the Canadian Immigration Program; 2000 Chapter 13 Assessment of Financial Management Capabilities in Departments; 2000 Chapter 14 Canadian International Development Agency —Managing Contracts and Contribution Agreements; 2000 Chapter 18 Governance of Crown Corporations; 1996 Chapter 4 Internal Audit in Departments and Agencies; 1996 Chapter 17 Human Resources Development Canada —Canada Pension Plan: Disability; 1993 Chapter 7 Internal Audit; 1993 Chapter 15 Department of Fisheries and Oceans — Northern Cod Adjustment and Recovery Program.

The Value of Government Spending Should Be Measured By What It Achieves

Defining clearly the results of a program is a difficult task — especially in the public sector, where the policy aims are often intrinsically broad — but a task that is necessary. Historically the tendency has been to justify government programs more by the resources they used than by the results they produced. But governments don't create programs in order to spend money; they establish programs to deliver services that improve the lives of Canadians. What is a program expected to achieve? How will we know if it does? These questions need to be answered as clearly as the circumstances of each program will permit. That is why government needs to manage for results.

Historically the tendency has been to justify government programs more by the resources they used than by the results they produced.

As noted in Chapter 20 of this Report, managing for results in an organization requires the following elements:

- Fostering an organizational climate that encourages managing for results, including leadership from senior management and appropriate incentives.
- Agreeing on a strategic framework for results, making clear what the organization intends to accomplish and how.
- Agreeing on the expected results and strategies of programs, establishing clear objectives and performance indicators up front.
- Measuring performance results and using that information to improve the design and operation of the program.
- Reporting performance effectively, that is, in a way that allows Parliament and stakeholders to see how well the program is doing.

Establishing clear objectives and performance indicators up front and regular monitoring and reporting of results are useful on several counts. They encourage program improvements by helping management know how well a program works. They enhance Parliament's ability to hold the government to account for the use of public funds. And they nourish public trust in government, by enabling the public to know what they get for their tax dollars and whether it represents the best value for the money.

The government does recognize the importance of managing for results. In a November 1995 paper entitled *Strengthening Government Review,* it announced an explicit commitment to establish "a results-based management

Establishing clear objectives and performance indicators up front and regular monitoring and reporting of results are useful on several counts.

culture," embracing the expectation that "programs and services will identify intended results, measure progress and then report on achievements." As we report in Chapter 20, the government has introduced several important initiatives in support of that commitment, and a focus on results is now common in government departments. However, it is proving very difficult to complete certain critical steps, such as measuring results and using that information to improve performance.

For related Auditor General work, see: 2000 Chapter 20 Managing Departments for Results and Managing Horizontal Issues for Results; 2000 Chapter 29 Treasury Board Secretariat — the Government's Annual Contracting Activity Report — 1998; 1999 Chapter 19 Industry Portfolio — Investing in Innovation; 1997 Chapter 5 Reporting Performance in the Expenditure Management System; 1997 Chapter 11 Moving Toward Managing for Results; 1997 Chapter 22 Crown Corporations: Making Performance Measurement Work.

Government Spending Programs Should Remain Current

The resources available to government change over time. So do public needs and preferences. To ensure that public spending is allocated to the uses that are most valued, government needs to evaluate its programs regularly and assess whether they are still relevant, effective and efficient. Questions that evaluations should address include the following:

- Does the program still serve a clearly defined public purpose that matters to Canadians?
- Would we establish the program today if it did not already exist?
- Is it desirable to maintain it at the current level?
- Can it be delivered more effectively or efficiently? Have there been changes (in the service environment infrastructure, technology, etc.) since the program's inception that would now permit an alternative means of achieving its objectives with greater economy, efficiency, or effectiveness?

These questions are similar to those asked during the government's Program Review that preceded the deficit-cutting measures announced in the February 1995 Budget. The government claims that Program Review was instrumental in establishing the priorities that should be supported and in identifying where spending could be cut with the least pain to the system and fewest adverse consequences for Canadians. These are, of course, precisely the purposes that program evaluation can serve. But evaluations should not be sporadic, or byproducts of financial crisis. Systematic, ongoing evaluation of programs is an essential part of good public management.

High deficits and the need to rein them in provided strong incentive during the 1990s to review government programs closely for savings opportunities and to evaluate new spending proposals carefully. Indeed, under the government's Expenditure Management System published in early 1995, all new spending had to be financed through reallocations from existing programs. In the current post-deficit environment, the demand for fiscal discipline may appear less pressing. The need for ongoing review of government programs remains, however, for we still need to ensure that they continue to serve a useful public purpose and that they remain efficient, effective and affordable.

Systematic, ongoing evaluation of programs is an essential part of good public management.

For related Auditor General work, see: 1996 Chapter 3 Evaluation in the Federal Government; 1993 Chapter 8 Program Evaluation in the Federal Government — The Case for Program Evaluation; 1993 Chapter 9 Program Evaluation in Departments — The Operation of Program Evaluation Units; 1993 Chapter 10 The Program Evaluation System — Making It Work.

Recent government pronouncements on spending practices are commendable, but follow-through is key

I was encouraged to see the government's clear commitment to "responsible spending" in the Treasury Board publication, *Results for Canadians: A Management Framework for the Government of Canada*, released earlier this year. Specific parts of that commitment coincide with several of the prerequisites for sound management of public spending I have been discussing here, including a focus on results, a proper environment of control, and continuous examination of expenditures to ensure that value is obtained for the taxpayer's dollar.

I was also pleased at the revised policy for transfer payments announced last May by the Treasury Board President. Key components of that new policy — clear eligibility criteria, due diligence in approving entitlement and making payments, a results-based accountability framework, enhanced reporting to Parliament, ongoing monitoring and evaluation — are consistent with recommendations we have made in past reports on audits of grant and contribution programs. Appropriately implemented, the revised policy should result in much better management of government transfer payments.

Effective implementation is key of course. In the rest of this chapter, I discuss how a sound framework of values and ethics and the right incentives can help convert principle into practice.

A Strong Foundation of Values and Ethics Can Support Prudent Spending

Government is increasingly relying on values and ethics, rather than on prescriptive controls, to maintain probity and prudence in the public sector. A strong foundation of values and ethics helps to ensure that sound judgments are made in deciding how to spend money and implement programs. There is such a foundation in the federal public service at present, but it should not be taken for granted.

Exhibit 2 — Components of an Ethical Framework

- Statement of principles.
- Leadership by ministers and senior officials.
- Empowerment of public servants to carry out their duties in the public interest.
- Increased transparency in decision making.
- Provision of ethics-related training.
- Effective and trustworthy recourses for voicing ethical concerns.

Source: Reports of the Auditor General of Canada, 1995 and 2000.

As we note in Chapter 12 of this year's Report, major changes in government, such as the relaxation of central controls and the diffusion of decision-making authority, could undermine the existing strong foundation of values and ethics. We have proposed a framework to help maintain that foundation. This framework focusses on leadership, transparency in decision-making and the provision of guidance and training (see Exhibit 2).

The government has taken a number of important steps in recent years to maintain a strong foundation of values and ethics in the federal public sector. The 1996 report of the Task Force on Public Service Values and Ethics (the Tait report) helped forge a consensus on the current state of values and ethics in the federal public service and on areas for action. As well, the government is trying to reinvigorate a discussion of values and ethics in the public service. A number of departments are in the process of implementing sophisticated programs of values and ethics. For the most part, however, work to implement needed reforms in this area is only at a preliminary stage.

In its efforts to sustain sound values and ethics in the public sector, the government faces several major challenges. A set of principles to guide the public sector has to be developed. This cannot be imposed. It needs to be developed with the full participation of members of the public service and those who do business with the government. If the principles are to have credibility, leadership by example throughout the public sector will be critical.

In its efforts to sustain sound values and ethics in the public sector, the government faces several major challenges.

The government is telling public servants that ethics involve "a commitment to do the right thing." It is also advising them that in deciding how to act, they should consider their obligation and authority to act, choose the best option, and accept responsibility for the actions taken. To help public servants act on this advice, the government needs to clarify the responsibilities of ministers and officials so there is a better understanding of who is accountable for what.

There is also a need to provide public servants with effective means to intervene in good faith and voice ethical concerns. Public servants should not be put in the position of believing that their only recourse is to express their concerns publicly. It should be possible to address matters of ethical concern effectively within an organization. To make it possible, the recourse mechanisms must be clear and trustworthy.

Finally, organizations and individuals doing business with the government or receiving government funds must play a supportive role. They need to understand that they are expected to respect the values and ethics that underpin sound public administration. The government will need to provide appropriate guidance on this.

A strong foundation of sound values and ethics is an essential part of good governance. It deserves more vigorous and systematic support than it has received to date. The government need to show greater determination on this front, develop a plan to address the issues involved, and act decisively to implement it.

For related Auditor General work, see: 2000 Chapter 12 Values and Ethics in the Federal Public Sector; 1999 Chapter 26 National Defence — The Proper Conduct of Public Business; 1998 Chapter 15 Promoting Integrity in Revenue Canada; 1995 Chapter 1 Ethics and Fraud Awareness in Government.

Incentives Should Be Harnessed to Pull in the Right Direction

A strong commitment to the values of professionalism, integrity and service reduces the risk that office holders will behave improperly or abuse the power of their office. But virtue alone is not enough to produce good results. As the famous British economist Alfred Marshall once observed, "Progress chiefly depends on the extent to which the *strongest* and not merely the *highest* forces of human nature can be utilized for the increase in social good." An altruist will give more to charity than a miser, but each is likely to give less when the cost of giving rises (through a reduction in the tax subsidy afforded charitable donations, for instance). Incentives matter. How to make them work in the administration of the public sector is a question of the first importance. Regrettably, it has not always received the attention it deserves.

Both carrot and stick can be used for the purpose. Deliberate abuse of power must invite appropriately corrective consequences. Good performance — performance above and beyond the call of duty — should be rewarded accordingly. Opportunities to tie rewards to performance may not be as prevalent in the public sector as in the private sector, but they do exist. Bonuses, promotions and reassignments are some available means. Programs of public recognition for a job well done or recognition from colleagues can also motivate a greater effort to improve performance and are often easier to implement than monetary incentives.

The question of the right incentives extends beyond individual rewards and sanctions to broader rules in government.

The question of the right incentives extends beyond individual rewards and sanctions to broader rules in government. To illustrate, until 1993 all savings achieved by departments — any unspent balances by year-end — would be returned to the government's general coffers. Where was the incentive to save in such a system? In 1993, the supply process was amended to allow departments to carry forward a portion of their unspent funds to the following fiscal year. As a result of that change, year-end spending sprees by departments are now less common than they used to be.

Unfortunately, they have recently been replaced by a similar practice at a more aggregate level. With the elimination of the deficit three years ago, the government has adopted the practice of announcing significant new spending toward year-end so the estimated surplus is reduced to a level no higher than the $3 billion "contingency reserve" included in the Budget forecast. Largely as a result of this practice, cumulative spending in excess of Budget projections has amounted to $10.5 billion over the past three years.

Poorly structured incentives also appear to have played a role in the mismanagement of job creation programs at HRDC. According to testimony before the House of Commons Standing Committee on Human Resources Development and the Status of Persons with Disabilities, HRDC front-line employees were under pressure to approve projects quickly and spend the available funds. Employees who exercised prudence might have been assessed poorly for failing to disburse enough funds.

There is a tendency in government at times to move cautiously in ferreting out error and to respond slowly when it is found.

Mistakes can occur in any organization. When they occur in the private sector, there are strong incentives to correct them quickly and move on: financial markets and the bottom line are powerful enforcers.

In the public sector, rectifying mistakes often appears less pressing. To set a failure right, it is necessary to own up to the failure first. But where are the benefits to ministers and senior management of acknowledging error? The fallout can often be severe. Cover the mistake up, on the other hand, and life chugs along normally: none is the worse off but taxpayers. There is therefore a tendency in government at times to move cautiously in ferreting out error and to respond slowly when it is found.

A number of lessons emerge from this experience:

- It takes courage for public officials to bring administrative abuses and mistakes to light. When they do, they deserve protection against possible retribution from their bureaucratic or political masters for the discomfort they may have caused. As the Task Force on Public Service Values and Ethics concluded, appropriate mechanisms are needed to permit public servants to express dissent and raise ethical concerns without suffering for their efforts.

Enhanced transparency and accountability lead to stronger institutions and more effective government.

- Accountability requires that people accept responsibility for their mistakes — that goes without saying. Excessive emphasis on laying blame, however, can be counterproductive. If we wish to empower employees and encourage them to innovate, then we must be prepared to accept the risk that, at times, mistakes and wrong decisions will be made. When that happens, we should focus on learning from the experience rather than assigning blame.

- Parliament and the public should encourage more openness in government. Sunlight, it has been said, is the best antiseptic. Clear, timely information on money spent, where it went and what it achieved makes it easier for those outside the organization to monitor the disbursement of funds for consistency with policy intentions, probity and prudence. The knowledge that their operations are visible encourages public servants and their political masters to exhibit behaviour that can withstand scrutiny. **Overall, enhanced transparency and accountability lead to stronger institutions and more effective government.**

For related Auditor General work, see: 1999 Chapter 11 Agriculture Portfolio — User Charges; 1994 Chapter 32 Department of Finance and Revenue Canada — Income Tax Incentives for Research and Development; 1992 Chapter 5 The Learning Organization.

Conclusion

The past decade has seen a strong movement toward a less bureaucratic, more flexible approach to management in the federal public sector. The relaxation of central controls, increased managerial discretion, a focus on results over process — these are all elements in this trend. This is a trend that I very much favour and have strongly supported, but it has a downside. As recent disclosures of some lax spending practices in government suggest, when controls are reduced and more discretion is allowed, there is some risk that discretion will be misused and things may go wrong.

To minimize that risk, devolution of authority must be matched with some basic principles to guide spending decisions and to place appropriate bounds on the use of discretion. In broad terms, these principles require acting within authority and acting with prudence while maintaining a focus on results that matter to Canadians. Reinforced with appropriate incentives, values and ethics, they can help produce government that is both frugal and effective.

The Canadian economy has been on a strong upward trajectory over the past few years, and government coffers are flush with cash. Good times are not normally conducive to intensive efforts to achieve economy and efficiency. All the more reason, therefore, for parliamentarians and the public to remain vigilant, and to insist that government spending take place within a framework that respects the supremacy of Parliament and fosters value for the taxpayer's dollar.

Supplement: Other Matters

Reforms in human resource management have not met expectations

Public management in Canada has changed significantly in the last decade, becoming less reliant on detailed central controls and more focussed on results. As part of this change, departments and their employees have received broader authority and discretion to find innovative ways of meeting objectives. These changes have highlighted the importance of improving the way government employees are managed in order to attain desirable results. As I have stressed on previous occasions, success on this front is key to successful public sector reform generally, for it is people who must implement the reforms, deliver the services and provide feedback for improved performance.

Despite major initiatives during the 1990s, human resource management reforms have not met expectations. Further, the challenges have taken on increased urgency. One reason is that measures to cope with difficult fiscal circumstances exacerbated poor labour-management relations and led many public servants to question the wisdom of a career in the public service. A second is that the public service faces new or heightened concerns. These include an impending "retirement bulge", which raises the spectre of a future leadership crisis, and increasing competition from other employers for "knowledge workers."

There is a need for a real breakthrough in human resource management if the public service is to meet the challenges before it. Key to achieving this breakthrough is the resolution of three long-standing issues. The administrative framework governing the public service is cumbersome, costly and ill-suited to the demands of modern management. Responsibility is fragmented to an extent that clear leadership is lacking and accountability for reforms is unclear. And the increasing autonomy of departments demands major changes in the roles played by departmental managers. Deputy ministers, traditionally seen as primarily responsible for administering a centrally prescribed framework, must instead assume pivotal responsibility for the way their people are managed and for maintaining a healthy work environment in their departments.

For related Auditor General work see: 2000 Chapter 9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities; 2000 Chapter 21 Post-Secondary Recruitment Program of the Federal Public Service; 2000 Chapter 22 Development of the Universal Classification Standard: A Follow-up.

Financial management capabilities in departments fall short of what is needed

Encouraging better financial management in government has been a long-standing strategic priority of my Office. As part of this effort, in April 1999 we published the Financial Management Capability Model, a framework describing the essential elements of financial management in government departments and agencies. The Model sets out the Office's expectations for financial management and is the basis on which future audits in this area will be conducted.

In Chapter 13 of this year's Report, we presented the results of an audit of the financial management capabilities in five government departments. The audit found that none of these departments meets the requirements of important current government initiatives, such as the Modernization of Comptrollership and the Financial Information Strategy. These initiatives aim to modernize the way government manages resources, by strengthening internal controls and providing better information to support planning, decision making and reporting.

One of the most common weaknesses we found was the limited ability to integrate financial and non-financial information. Without integrated information, departments cannot determine accurately how much it costs to produce a particular result or to deliver a service at a given level. They need such information to make sound decisions, manage risks well and account properly for the use of resources.

It will be difficult to modernize government operations without strong financial management capabilities. The development of these capabilities throughout government will require the sustained support and concerted effort of the Treasury Board Secretariat, the Privy Council Office and deputy ministers. With important government initiatives hinging on capabilities that do not currently exist, there is no time to spare.

For related Auditor General work, see: 2000 Chapter 13 Assessment of Financial Management Capabilities in Departments; April 1999 Financial Management Capability Model; 1999 Chapter 21 Financial Information Strategy: Departmental Readiness; 1998 Chapter 18 The Financial Information Strategy: A Key Ingredient in Getting Government Right.

Performance reporting has improved but progress has been slow

In Chapter 19 of this Report, we examine the reporting of departmental performance to Parliament. Some improvement has been made since our 1997 audit of this matter, but I am disappointed at the slow pace of progress. While today's performance reports are better than the information that was available to parliamentarians in the previous Part III Estimates, they are still too much a report of activities rather than an accounting of the results achieved compared with what was planned. Too often the planned results are vague about what the departments actually expect to achieve, and the reporting of performance does not link achievements to the longer-term benefits for Canadians.

Members of Parliament and the public need good performance information to be able to hold the government to account. Parliamentarians need this information in their committee reviews of departmental programs and in their scrutiny of the budgetary process. Parliament may want to consider legislation to ensure that it is provided. But other changes are also needed in the reporting regime. Agreement on principles of reporting, more incentives for good reporting, and stronger oversight and challenge by the Treasury Board Secretariat are all required. Departments also need performance information to improve programs and services.

I am pleased to note that a general focus on results seems to have taken hold in the culture of departmental management and performance reporting. But effective implementation requires that the next steps — measuring results, using that information to improve programs and credible reporting on results to Parliament — be taken with some urgency.

For related Auditor General work, see: 2000 Chapter 19 Reporting Performance to Parliament: Progress Too Slow; 2000 Chapter 20 Managing Departments for Results and Managing Horizontal Issues for Results; 1997 Chapter 5 Reporting Performance in the Expenditure Management System.

Education system fails to meet the needs of Indian children on reserves

In April of this year, we reported on our audit of elementary and secondary education for Indian children who live on reserves. Indian and Northern Affairs Canada (INAC) allocates about $1 billion each year for this purpose, in addition to funding school construction and maintenance.

The audit found serious gaps in the academic achievement of First Nations students compared with other Canadians. The dropout rate of these students before grade nine is six times higher than that of the general Canadian population. The proportion of the on-reserve population with a high school education is significantly lower than in the general population. Moreover, it is questionable whether the education received by Indian students meets their cultural needs.

This poor record reflects deficiencies in the education programs funded by INAC that have existed for a very long time. For one, the Department has not articulated its role in education. Clarification of the role is essential both for accountability purposes and for the Department to know whether its existing capacity and resources are sufficient to fulfil that role.

The Department also needs to address several operational issues, including how education funds are administered. As a result of program devolution and delegation of authorities, the Department has come to rely on First Nations and the provinces for the delivery of education services. The Department needs to take the measures necessary to ensure that these services — for which it provides funding — are effective and efficient.

Action to meet the education needs of Indian children is urgently needed. In the absence of satisfactory progress, there will be high financial cost in social programs, an increased waste of human capital, and degradation of the relationship between the government and First Nations peoples.

For related Auditor General work, see: 2000 Chapter 4 Indian and Northern Affairs Canada —Elementary and Secondary Education.

Health and safety regulatory programs face difficult challenges

Health and safety regulatory programs deal with issues ranging from food inspection and nuclear power regulation to environmental pollution and air safety. Their basic purpose is to protect Canadians from risks to health and safety. This task is becoming increasingly complex, requiring a correspondingly sophisticated approach to accomplish it.

Federal health and safety regulatory programs have experienced profound changes over the past decade. They were restructured to streamline delivery, and they shifted orientation away from direct regulation (designed and imposed by government) toward greater reliance on standards developed by third parties, such as voluntary industry codes. They were also subjected to funding reductions, which have been partly reinstated recently.

Some of these changes have had an adverse impact on public confidence in the effectiveness and credibility of health and safety regulatory programs. Restoring public confidence is one of several serious challenges facing these programs today. Other challenges include a significant exposure to legal claims for regulatory negligence, arising from court decisions over the past decade; the need to co-ordinate operations across departments and jurisdictions, since many health and safety issues cut across departmental mandates and political borders; and the need for large-scale recruitment of expert staff, in light of the high proportion of employees who will be eligible for retirement in the near future.

In Chapter 24 of this Report, we make a number of recommendations that can help government respond to these challenges.

For related Auditor General work, see: 2000 Chapter 24 Federal Health and Safety Regulatory Programs; 2000 Chapter 25 Canadian Food Inspection Agency — Food Inspection Programs; 2000 Chapter 26 Health Canada — Regulatory Regime of Biologics; 2000 Chapter 27 Canadian Nuclear Safety Commission — Power Reactor Regulation; 2000 Chapter 28 Follow-up of Previous Recommendations on Health and Safety Regulatory Programs.

Governance of Crown corporations has improved but can be made better

Corporate governance refers to the process and structures for overseeing the direction and management of a corporation so that it effectively carries out its mandate and objectives. It is critical that a Crown corporation be well governed if taxpayers' money is to be well spent. Based on our general experience in auditing Crown corporations and a more specific review of 15 corporations, we see shortcomings in three areas important to the way Crown corporations are governed.

First, boards of directors need strengthening. Currently, they lack key skills and capacities to oversee effectively the management of Crown corporations. Corporations need to define better their requirements in this area, and government needs to act on them. Boards of directors also need to be more engaged in selecting the corporation's chief executive officer (CEO). Without meaningful involvement by the board in the process, accountability of the CEO to the board is weakened and corporate governance as a whole suffers.

Second, the audit committees of Crown corporation boards often fall short of recognized best practices. The audit committee plays a crucial role in financial reporting, risk management and internal control. Of the committees we examined, half were considered ineffective or only marginally effective.

Finally, the government has a limited capacity to review and challenge Crown corporation corporate plans. The government needs to strengthen this capacity, since these plans are the basis for holding Crown corporations accountable for their conformance to government policy and their performance overall.

For related Auditor General work, see: 2000 Chapter 18 Governance of Crown Corporations; 1995 Chapter 10 Crown Corporations: Fulfilling Responsibilities for Governance.

Opportunities for cost savings

Improving the efficiency and effectiveness of government activities and cultivating a healthy regard for economy are objectives central to our mandate and to the work that we do at the Office. The impact of our work is not easily quantifiable in most cases, but often in the course of our audits we find opportunities for cost savings to which a price tag can be attached. The following are examples taken from audits reported this year:

Management of health benefits to First Nations. In a 1997 audit of health programs delivered to First Nations communities, we noted the need for a point-of-service system to control the administration of benefits. We also recommended that Health Canada take appropriate steps to improve claims-processing system controls and edits. In a follow-up audit this year, we found that $8.4 million was saved in 1999 through identification and rejection of improper claims, but further improvements are still possible.

Non-recovery of expenditures by Indian and Northern Affairs Canada. The Department has spent approximately $151 million since 1977 to ensure a continuous supply of drinking water to Cree communities that were adversely affected by hydro-electric development by Manitoba Hydro. Under an agreement signed in 1977, Manitoba Hydro is required to reimburse the Department for 50 percent of the expenditures attributable to the adverse effects of the hydro projects. We note in Chapter 17 that the Department has not made any recoveries to date.

Debt servicing costs. In order to limit its exposure to unexpected increases in interest rates, the government increased the fixed-rate share of federal debt from 55 percent of gross debt in 1995 to 67 percent in 1998, where it remains today. In Chapter 8 we recommended that in light of its improved fiscal condition the government review its debt structure target to determine whether it is still appropriate. The chapter noted that based on the historical difference between long- and short-term rates, a five-percentage-point shift from fixed-rate to floating-rate debt could generate an annual saving of some $250 million.

For related Auditor General work, see: 2000 Chapter 8 Department of Finance — Managing Canada's Debt: Facing New Challenges; 2000 Chapter 15 Health Canada — First Nations Health: Follow-up; 2000 Chapter 17 Other Audit Observations.

Main Points

Table of Contents

Page

Main Points - April 2000

Chapter

1 Service Quality 5

2 Human Resources Development Canada – Service Quality at the Local Level 7

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program 9

4 Indian and Northern Affairs Canada – Elementary and Secondary Education 11

5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry 12

6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development 13

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community 15

8 Department of Finance – Managing Canada's Debt: Facing New Challenges 16

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities 18

Main Points - October 2000

Chapter

10 Transport Canada – Airport Transfers: National Airports System 20

11 Human Resources Development Canada – Grants and Contributions 22

12 Values and Ethics in the Federal Public Sector 24

13 Assessment of Financial Management Capabilities in Departments 26

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements 28

15 Health Canada – First Nations Health: Follow-up 30

16 Follow-up of Recommendations in Previous Reports 32

17 Other Audit Observations 33

Table of Contents

Page

Main Points - December 2000

Chapter

18 Governance of Crown Corporations 34

19 Reporting Performance to Parliament: Progress Too Slow 36

20 Managing Departments for Results and Managing Horizontal Issues for Results 38

21 Post-Secondary Recruitment Program of the Federal Public Service 40

22 Development of the Universal Classification Standard: A Follow-up 42

23 Information Technology: Acquisition of Goods and Services 44

24 Federal Health and Safety Regulatory Programs 46

25 Canadian Food Inspection Agency – Food Inspection Programs 48

26 Health Canada – Regulatory Regime of Biologics 50

27 Canadian Nuclear Safety Commission – Power Reactor Regulation 52

28 Follow-up of Previous Recommendations on Health and Safety Regulatory Programs 53

29 Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998 54

30 Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks 56

31 Fisheries and Oceans – Fleet Management 57

32 National Defence – Defence Support Productivity: A Progress Report 59

33 Follow-up of Recommendations in Previous Reports 61

34 Other Audit Observations 63

35 Sustainable Development Strategy for the Office of the Auditor General 64

Service Quality

Chapter 1 – Main Points

1.1 The purpose of our audit was to see whether the federal government is providing better quality of service to Canadians, after a decade of commitments and a series of initiatives to improve it. In 1996, we provided a midcourse assessment of the government's progress. In the current audit, we revisited the same 13 services delivered by 10 government departments and agencies.

1.2 The most significant improvement since 1996 has been to make telephone services more accessible. Canadians are now able to obtain faster responses to their enquiries once their calls are answered. Despite that improvement, however, we are concerned by the high percentage of calls not answered when lines are busy and calls abandoned while the caller waits on hold to speak to an agent. At the Canada Customs and Revenue Agency (Taxation) the percentage of unanswered calls remains high at 54 percent, although it has improved since 1996, when it was 73 percent.

1.3 For most services delivered by means other than telephone, such as counter service, there was not enough performance information for us to determine whether service has improved. The Passport Office has measured some of its key results and demonstrated significant improvement in its performance. Many departments and agencies have taken initiatives since 1996 to improve service but have not sufficiently measured the results.

1.4 Departments and agencies need to consult more with their clients to identify the aspects of service that matter most to them, as well as the quality of service they expect. This information would help the service providers establish appropriate targets and indicators of performance to measure.

1.5 Communication to clients at points of service has improved since 1996. Canadians visiting these offices are better informed about the level of service they can expect. However, more attention is needed to informing them on what it costs to provide the services, whether targets have been met and how they can lodge and resolve complaints.

Background and other observations

1.6 The demand by Canadians for services of the federal government — such as enquiries about citizenship and immigration, Old Age Security, passports, weather or statistical information — has increased significantly since 1996. Volumes of service are higher in 10 of 13 service lines we audited. At the same time, the environment for delivering services continues to evolve with rapid advances in information technology and growing use of alternative methods of service delivery.

1.7 Telephone services have become increasingly prominent, while the use of counter services has declined. In the government telephone services we audited, the volume of telephone enquires climbed from 36 million in 1996 to 56 million in 1999, an increase of 54 percent. The numbers of written enquiries (mail, fax and e-mail), while still important in some services lines, are generally much lower.

1.8 Although service managers have acted on our 1996 recommendations and sought ways to make continuous improvements, none of the recommendations has been implemented fully. However, we noted a shift among public service managers and staff toward a stronger focus on service and innovation.

1.9 We were discouraged to find slow progress on the project to improve the government's telephone directory listings (the Blue Pages). The need to redesign them was identified in 1990 by the Public Service 2000 Task Force on Service to the Public.

1.10 Over the past three years, departments and agencies have provided Parliament with more information on service quality, and the information they report is more likely to be meaningful. But better information is needed on performance trends and on costs.

1.11 Since 1998, the Treasury Board Secretariat has given departments and agencies more guidance and support to improve service delivery. However, it has not systematically monitored progress across the government, and the information it has reported to Parliament has not been adequate to provide a clear understanding of progress in improving the quality of service to Canadians.

The response of the Treasury Board Secretariat on behalf of the government is included at the end of the chapter. The Secretariat indicates that the new Blue Pages telephone directory format will be implemented according to established publication schedules. The Secretariat agrees with our recommendations on measurement, client satisfaction and reporting. It indicates that it is working with departments to develop an approach designed to promote continuous improvement in service delivery across the government.

Human Resources Development Canada

Service Quality at the Local Level

Chapter 2 – Main Points

2.1 Human Resources Development Canada (HRDC) has made considerable progress in addressing service quality. National initiatives in recent years have included developing a policy to guide its approach to high-quality service, implementing a new service delivery network to make services more accessible to Canadians and setting out national service commitments to clients. Initiatives at the local level include upgrading the service-related skills of employees and using new technologies.

2.2 Although HRDC has defined national service commitments, we found they are not communicated consistently to clients at points of service. Further, local offices do not consistently inform clients about performance toward service delivery targets, the cost of services, and how to lodge complaints about the service received and obtain redress.

2.3 The Department does not have performance measures for all of its national service commitments. Measures of service performance focus on waiting time for counter services and the speed of processing and payment, but there are weaknesses in the measurement of both these indicators.

2.4 Despite improvements in the timeliness of Employment Insurance payments over the past three years, estimated incorrect payments have increased over this period from $4 to $6 for every $100 paid out. Available information shows that both underpayments and overpayments have increased for a variety of reasons, including a decline in the quality of information submitted by employers. We found that local office managers focussed mainly on speed of payment. There are neither performance targets nor measures of accuracy for the processing of claims at the local level.

2.5 Employment assistance services are increasingly provided by non-governmental organizations, under contribution agreements with HRDC. The agreements we reviewed do not set out service performance expectations or targets. Nor do they require the non-governmental organizations to be accountable for the quality of the services they provide.

2.6 There are gaps in the information the Department provides to Parliament on its performance in meeting its national service commitments. We also found gaps in the information that would help to provide context for the service performance that it does report. For example, information on the timeliness of paying Employment Insurance claims cannot be assessed in relation to information on the accuracy of payments.

Background and other observations

2.7 Almost one in three Canadians is a client of HRDC. Each year the Department processes 60 million to 80 million program claims and applications, sends about 100 million letters and pays out over $50 billion in various benefits. Most programs and services are offered at the local level, through one of the federal government's largest service delivery networks. It comprises 320 Human Resource Centres of Canada, 5,000 self-service kiosks, 21 telephone centres and 10 mail centres. Almost 80 percent of HRDC's 21,000 employees work at the local level.

2.8 To make continuous improvements in the quality of services, managers need to seek more feedback from clients at the local level through such means as client satisfaction surveys and analysis of client complaints. There is no policy for handling complaints in either the Employment Insurance Program or the Income Security Programs. However, the latter has started to develop such a policy.

2.9 The Department does not have the cost information it needs to manage the trade-off between the cost of its main services and their quality. We believe it needs to give more attention to developing and implementing action plans at the local level for continuous improvement in service quality.

The Department's responses to our recommendations are included in this chapter. For the most part, the Department agrees with the recommendations and indicates the steps that it is taking or intends to take to address them.

Citizenship and Immigration Canada

The Economic Component of the Canadian Immigration Program

Chapter 3 – Main Points

3.1 We noted serious deficiencies in the management and delivery of the economic component of the Canadian Immigration Program, whose purpose is to recruit highly qualified individuals who can readily contribute to our economy and adapt to our society. These deficiencies seriously limit Canada's ability to maximize the economic and social benefits that immigration affords, and to protect the integrity of its Immigration Program.

3.2 We found that immigration offices abroad are overtasked. They have much difficulty coping with the volumes of work and responsibilities assigned to them. Immigration levels set by the government are not met, and applicants are waiting longer and longer for their applications to be finalized — sometimes more than three years.

3.3 We noted weaknesses that leave Citizenship and Immigration Canada open to criticism of the quality and consistency of its decisions in selecting immigrants. Visa officers need better selection criteria, better training and better tools to assess immigrant applications more effectively. In addition, the Department does not sufficiently monitor the quality of their decisions. We noted significant differences in approval rates among officers processing similar cases.

3.4 Our audit revealed significant weaknesses in the management of medical assessments of prospective immigrants. Since our last audit in 1990, the Department and Health Canada have been unable to take a position on whether changes to standards for medical examinations are required to determine if an applicant poses a danger to public health and safety, or could place excessive demand on health care systems or social services. The same routine tests have been required for the last 40 years and the departments have not decided whether applicants should be routinely tested for any infectious diseases other than syphilis and tuberculosis. We are also very concerned about the lack of rigour and consistency in the overall management of medical assessment activities, including the procedures for supervising the designated local physicians who perform medical examinations of prospective immigrants abroad.

3.5 There are serious constraints on establishing criminality and security admissibility of prospective immigrants. Visa officers have little information and support to ensure that applicants are not likely to engage in criminal activities or endanger the safety of Canadians. Some people are thus admitted to Canada without reasonable assurance that they have not committed crimes abroad, engaged in espionage, subversion or terrorism, or been associated with organized crime.

3.6 The Department is particularly vulnerable to fraud and abuse. It has no effective measures in place to discourage people from submitting fraudulent applications, and visa officers often resort to detection methods that are costly. In addition, we found inadequate control over revenues, visa forms and computer systems.

3.7 Employees responsible for processing immigrant applications in offices abroad are deeply concerned about the present state of affairs. They feel they are not only going against their own values but also making decisions that could carry risks that are too high and that could entail significant costs for Canadian society.

3.8 Overall, it is highly questionable whether the Department has the resources and the operational capacity it needs to carry out the tasks required to meet the annual immigration levels set by the government.

Background and other observations

3.9 Citizenship and Immigration Canada is responsible for, among other things, setting immigration policy, selecting immigrants, and evaluating visitors' applications abroad. It also protects Canadians' health and safety by intercepting individuals who are not entitled to enter or remain in Canada, and returning them to their country of origin.

3.10 In 1999, approximately 190,000 immigrants were admitted to Canada. There are four broad components in the Immigration Program: family, economic, refugee, and other. Our audit focussed on the economic component, which accounts for 56 percent of landed immigrants each year. This component is aimed at recruiting skilled workers and business immigrants.

3.11 Immigration services abroad are provided through a complex network of 81 offices in Canadian embassies, high commissions and consulates. About 210 Canadian officers and 980 locally engaged staff work in these offices and process a large volume of immigration visas, visitor visas, and student and temporary employment authorizations each year. Several other federal departments and agencies also have responsibility for results achieved in the Immigration Program, including the Department of Foreign Affairs and International Trade, the Canadian Security Intelligence Service, the Royal Canadian Mounted Police and Health Canada.

3.12 It is disappointing to note that several of the deficiencies discussed in this chapter are similar to those we reported in 1990. Over the years, the government and the Department have undertaken a number of initiatives to remedy the situation, but without much success.

3.13 This situation requires immediate attention by both the Department and the government. On the one hand, the Department must improve its efficiency in processing immigrant applications. Offices abroad are buried in paperwork, and their outdated technology is a serious obstacle to improving performance. The Department needs much better information on the resources required to fulfil its responsibilities in processing applications. On the other hand, a significant investment of resources may be needed to correct the deficiencies we noted and to allow the Department to realize the potential efficiency gains we identified. It is particularly essential that in deciding on annual immigration levels, the government ensure a proper balance between the resources allocated to the Department and its federal partners and the workload required to meet those levels.

3.14 The Department's current review of the *Immigration Act* provides an excellent opportunity to correct some of the deficiencies. However, the challenge for the government and the Department is enormous and complex. Since Parliament has expressed a particular interest in the Program by requiring the tabling of an annual immigration plan, we encourage parliamentarians to follow the situation closely.

The responses of Citizenship and Immigration Canada, Health Canada, the Royal Canadian Mounted Police, the Canadian Security Intelligence Service and the Department of Foreign Affairs and International Trade are included in this chapter. They agree with our recommendations and note that initiatives are under way in several areas.

Indian and Northern Affairs Canada

Elementary and Secondary Education

Chapter 4 – Main Points

4.1 Indian and Northern Affairs Canada cannot demonstrate that it meets its stated objective to assist First Nations students living on reserves in achieving their educational needs and aspirations. For example, the Department does not have the necessary assurance that First Nations students are receiving culturally appropriate education. Moreover, the progress in closing the education gap for Indian students living on reserves has been unacceptably slow. At the current rate of progress, it will take over 20 years for them to reach parity in academic achievement with other Canadians.

4.2 To obtain assurance and effectively discharge its responsibilities, the Department needs to resolve several major issues. These include the need to articulate its role in education, to develop and use appropriate performance measures and to improve operational performance. In addressing these issues, the Department will need to further take into account the cultural and special needs of Indian students as well as socio-economic factors that can affect success in education.

4.3 The situation is complex and urgent, and the urgency will increase as more demands are placed on education as a result of an increasing population on reserves, and changes in technology and in provincial education programs upon which the Department relies. Although the Department has identified or started several projects for education reform, it must still respond with significant action to resolve these issues.

Background and other observations

4.4 The Department is empowered to take an active role in the provision of elementary and secondary education for Indian children living on reserves. Although it has chosen to rely on First Nations and the provinces for the design and delivery of appropriate education, the Department acknowledges that this approach does not diminish its responsibility and accountability.

4.5 For more than 100 years, various statutes, Indian treaties and government policies have shaped the mandate and responsibilities of Indian and Northern Affairs Canada for education.

4.6 Presently, about 117,000 students enrolled in elementary and secondary schools live on reserves. Current budgeted costs, not including school construction and maintenance, are about $1 billion annually.

Indian and Northern Affairs Canada acknowledges the importance of the issues identified in this chapter. It believes that Gathering Strength — Canada's Aboriginal Action Plan, and other planned education initiatives involving the Department, First Nations and provincial governments, will help close the education gap cited in this chapter.

Canada Customs and Revenue Agency

Travellers to Canada: Managing the Risks at Ports of Entry

Chapter 5 – Main Points

5.1 The Canada Customs and Revenue Agency has many efforts under way to modernize its Customs operations and to make effective use of technology. However, we found that it needs to make some significant improvements.

5.2 A well-articulated and comprehensive compliance strategy is a key element of promoting compliance. Customs does not yet have an overall compliance strategy that clearly describes its plans for encouraging voluntary compliance and that outlines its approach to responsible enforcement.

5.3 We found that risk assessment is incomplete: Customs does not have important information it needs from a variety of departments and agencies to fully assess the risks its inspectors face. It needs to know where the risks are highest so it can determine the best way to control them. We have recommended that Customs work more diligently to obtain information on the risks arising from the responsibilities it carries out at ports of entry on behalf of other departments — Citizenship and Immigration Canada, Health Canada and the Canadian Food Inspection Agency, for example — and include them in its national risk assessment. It also needs to have up-to-date memoranda of understanding with those departments, setting out their respective roles and responsibilities.

5.4 We also found that Customs inspectors at the border and at airports need to be better equipped to do their complex job. They must enforce customs and excise legislation and make a variety of decisions for many other government departments. In processing travellers, Customs inspectors have only a short time to make these decisions. Customs does have information, systems and training to assist its officers but the information is not shared consistently, the systems need improvement and the training is uneven.

Background and other observations

5.5 In 1998-99 the Customs program of the Canada Customs and Revenue Agency processed over 104 million travellers who entered Canada at ports of entry. About half were returning Canadian residents. Most travellers enter Canada by highway from the United States (79 percent) or at airports (17 percent). Since 1991-92 the number of travellers coming by highway has decreased, while the number of air travellers has grown by almost 48 percent, owing partly to the Canada-United States Open Skies Agreement.

5.6 Over the years, Customs' role has evolved from mainly collecting revenue to one of facilitating the entry of travellers and goods, while protecting Canadian society and promoting the competitiveness of Canadian businesses.

5.7 Customs operates in an environment that continues to change. To help it deal with change, it developed discussion papers in 1990 and again in 1998 as blueprints for the direction it would take in the future and the initiatives it would employ. Customs has taken some major steps toward reaching the goals it set for itself in 1990. It recently released a draft five-year action plan to implement the initiatives identified in its 1998 discussion paper.

The Canada Customs and Revenue Agency's responses to our recommendations are included in the chapter. The Agency agrees with the seven recommendations, and its responses describe a number of actions under way to deal with them.

Canada Customs and Revenue Agency and Department of Finance

Handling Tax Credit Claims for Scientific Research and Experimental Development

Chapter 6 – Main Points

6.1 In 1994 the government restricted the period for filing tax credit claims for scientific research and experimental development (SR&ED) to 18 months after the year in which taxpayers incurred them. The Canada Customs and Revenue Agency then received 16,000 additional claims, which represented $2.8 billion in credits for taxation years as far back as 1985.

6.2 Our audit revealed significant inconsistencies in the handling of these claims. These inconsistencies compromised the fairness of the review process. In addition, serious professional differences of opinion arose within the Agency on how to resolve a dispute with a claimant over a significant claim. The Agency did not demonstrate that it had effective mechanisms to resolve this type of difference among its officers on individual cases.

6.3 The lack of clarity about the eligibility of SR&ED projects has resulted in unresolved claims dating back to 1985. The claimed tax credits amount to hundreds of millions of dollars. Since the creation of the SR&ED program, there have been disagreements between claimants and administrators and among administrators on what constitutes an eligible activity or project, how thoroughly a science officer should review a claim and how much documentation is necessary to support a claim. Clearer rules are urgently needed to deliver and administer the program effectively and efficiently.

6.4 The Agency has recognized the need to improve the administration of the program. To this end, after consulting stakeholders, the Minister of National Revenue released an action plan in November 1998. The Agency created a new Directorate and appointed a new head of the program.

6.5 According to our audit, the Agency needs to improve the assessment of the risk that taxpayers' claims are ineligible so that science and audit staff can focus on claims with the highest risk. The Agency manages the risk of ineligibility by conducting completeness checks, risk assessments, audits and science reviews.

6.6 An evaluation of the SR&ED program, done by the Department of Finance and the Agency, may have overstated the impact of the program in generating additional spending on SR&ED. The evaluation also indicated that the program generated only a net increase in Canada's real income of between $20 million and $55 million per year.

Background and other observations

6.7 The federal government encourages research and development in the private sector through tax incentives. Taxpayers receive tax credits once they have incurred expenses on their projects.

6.8 The Agency's information systems show that in 1997 about 11,000 corporations and individual taxpayers claimed over $10 billion in SR&ED expenses and $2 billion in tax credits. Large corporations claimed 85 percent of total expenses.

6.9 A staff of 144 science advisors and 268 financial auditors review claims in 37 tax services offices across the country. Advisors determine whether the work is eligible under the program and auditors examine whether the related costs qualify.

6.10 A key objective of the Agency's 1998 action plan was to reduce uncertainty about the eligibility of science projects. As a result, the Agency and industry proposed a definition of an SR&ED project that, in our view, modifies the level of eligible SR&ED work and expenses and that could result in additional costs in tax credits. If any significant changes were made to the definition of an SR&ED project, they would need to be reviewed by the Department of Finance, which is responsible for the program's policy objectives, costs and related legislation.

The responses of the Canada Customs and Revenue Agency and the Department of Finance are included in the chapter. Their responses describe the action they have taken and will continue to take to address our recommendations.

Royal Canadian Mounted Police

Services for Canada's Law Enforcement Community

Chapter 7 – Main Points

7.1 The levels of service that the RCMP provides to the Canadian law enforcement community do not meet the needs of its clients. For example, the Canadian Police Information Centre (CPIC), a backbone system that provides information to police officers, courts, prisons and parole officers, was unavailable regionally or nationally 11 percent of the time last year. DNA analysis takes too long and is limited to only the most important cases. Thus, its full potential for public safety is not being realized. Backlogs of up to two months exist for inputting criminal history records and fingerprints into data banks. As a consequence, the criminal records and fingerprint data available to the police and others are not current. In addition, criminal record checks required by employers or volunteer organizations take too long.

7.2 It is imperative that senior management at the RCMP take action to eliminate backlogs in many of the services and improve efficiency. In particular, the RCMP needs to rationalize the number of laboratories in order to improve their level of service. Significant improvement is also required in performance measurement and the reporting of results. It is important that users, senior RCMP management and Parliament know these results.

7.3 The arrangement between the federal government and the provinces set in 1966 for these services needs to be rethought. It is time for a clear agreement among all the players in the law enforcement community — in the federal, provincial and municipal governments — on level of service, funding arrangements, user input, management and accountability. A new agreement will require the collaboration of all parties.

Background and other observations

7.4 The RCMP provides a range of services that are essential to the Canadian law enforcement community: police, courts, prisons and parole boards. These services include fingerprint identification, criminal history records, forensic laboratories, criminal intelligence and on-line access to data banks such as vehicle registration, drivers' licences, wanted persons and stolen property. In 1998-99, the RCMP spent approximately $122 million on these services.

7.5 There are a number of areas where the RCMP deserves credit for the way it has operated these services: it has kept the old CPIC information system operational while awaiting a new system; it has implemented new forensic techniques such as DNA analysis; it is developing a data bank for DNA; and it has made major upgrades to fingerprint identification and criminal history records systems.

7.6 Our last audit of services to the law enforcement community was in 1990. We made a number of recommendations to improve operational economy and efficiency. Attention has only recently been paid to many of our recommendations and others have not been addressed. These national services have also been reviewed several times over the past decade by the Solicitor General Canada, the Treasury Board Secretariat and the RCMP itself.

The RCMP agrees with the findings and indicates that it will be taking action.

Department of Finance

Managing Canada's Debt: Facing New Challenges

Chapter 8 – Main Points

8.1 Canada's debt management program is a well-run operation overall. But like any program that faces a changing environment, it needs to adjust. We have noted three areas where the Department of Finance needs to review its practices. These include:

- establishing a more complete range of performance measures to ensure that it has a sound basis for assessing how well the program is doing at meeting its objectives. Currently, the Department uses a variety of information internally but reports its performance for only one target — the ratio of fixed-rate debt to the total debt, now at two thirds;
- improving transparency to ensure that that there is a public accounting of not only the benefits of decisions on all aspects of debt management but also the costs. In recent years, the government significantly increased the proportion of fixed-rate debt and the level of foreign exchange reserves, and established targets for retail debt — all without disclosing the expected costs of these decisions; and
- modifying the management of strategic planning by consulting a range of outside experts to ensure that the Department obtains complete and independent advice.

Background and other observations

8.2 At the end of 1998–99, Canada's interest-bearing debt stood at $595 billion and the annual interest charges on that debt amounted to $41.4 billion. Managing the debt is the responsibility of the Department of Finance, working in conjunction with the Bank of Canada and the Canada Investment and Savings agency.

8.3 The principal objective of the debt management program is to provide stable, low-cost funding for government operations while keeping liquid the domestic markets for that debt. Another objective is to ensure that there are adequate reserves in the Exchange Fund Account to moderate volatility in the exchange rate on the Canadian dollar.

8.4 We found that the people who manage this program are a highly committed group. They closely monitor fiscal and economic developments that could affect debt management operations, and they consult regularly with financial market participants. They use sophisticated modelling techniques to identify debt management risks and to choose appropriate debt strategies.

8.5 Our audit dealt not so much with the choices debt managers make or the analysis underlying those choices as with the way they measure performance, the information they report, and the governance of the program.

8.6 Over the last few years, the government has made some major decisions in managing the federal debt. It has increased the proportion of longer-term, fixed-rate debt to two thirds of the total, some 18 percent higher than three years ago. While fixed-rate, longer-term debt makes the government's interest costs more predictable and reduces rollover risk, it generally costs more because long-term interest rates are normally higher than short-term rates.

8.7 Over the same three-year period, Canada's foreign exchange reserves have more than doubled, to US$25 billion. A higher level of foreign reserves improves the government's ability to promote stability in the value of the Canadian dollar, and also provides a larger pool of funds that can be used to finance unanticipated needs. But this comes at a cost, because the interest paid on foreign currency borrowing is normally higher than the interest earned on foreign reserve assets.

8.8 We also looked at retail debt — the sale of Canada Savings Bonds and Canada Premium Bonds. We noted that despite renewed attention to the sale of these bonds and the creation of a special operating agency to market them aggressively, we have seen no conclusive evidence that retail debt is cost-effective. We encourage the government to review the role of the retail debt program and its cost implications. We also encourage the government to disclose the results of this review when it completes it.

The Department's response to our recommendations are included in this chapter. For the most part, the Department accepts the thrust of our recommendations and indicates how it is responding to them.

Streamlining the Human Resource Management Regime

A Study of Changing Roles and Responsibilities

Chapter 9 – Main Points

9.1 We undertook this study to draw to Parliament's attention the urgent need to deal with long-standing issues and emerging challenges for human resource management in the public service.

9.2 The current framework governing human resource management in the "core" public service is unduly complex and outdated. Administrative systems are cumbersome, costly and outmoded. The framework is ill suited to an environment that demands flexibility and adaptability — an environment that faces significant challenges in human resource management and an increasingly competitive labour market.

9.3 Public service staffing is a major source of frustration both to managers and to employees. The system is rule-bound and inefficient. Managers need to have more authority in staffing, but they also must be more clearly accountable for their decisions. The interests of employees must be respected, but there is a pressing need to modernize and streamline the processes for staffing and related recourse.

9.4 Concerns about "fractured responsibility" for human resource management are long-standing. Responsibility and accountability for the changes needed to simplify, streamline and strengthen the current human resource management regime need to be clearly assigned and appropriately supported. This is particularly important in areas of divided responsibility.

- In human resource management, deputy ministers — leaders of the major organizations of government — have been seen as primarily responsible for administering a centrally prescribed framework. A significant step in their role is needed. Deputies should have pivotal responsibility for developing and maintaining a healthy work environment in their departments, and their responsibilities for human resource management need to be set out formally. Deputy ministers should be clearly accountable for the way their departments perform these responsibilities.
- The Public Service Commission needs to engage in an active dialogue with Parliament about changes in its activities and in the way it carries out its responsibilities for merit protection. This dialogue should encompass legislative reform of staffing. The Commission also needs to improve its reporting on departmental performance in adhering to the provisions and principles of the *Public Service Employment Act.*
- There is a need for the Treasury Board to strengthen its reporting to Parliament on the aspects of human resource management for which it is responsible. As well, there is a need to clarify the responsibility of deputies for reporting on the quality and effectiveness of human resource management in their departments.

Background and other observations

9.5 The core public service is now substantially smaller than at any time since the early 1970s. It has diminished by almost 100,000 employees in the last 10 years, to about 143,000 employees by the end of 1999. Government downsizing, devolution, privatization, limited recruitment and other measures were factors in this reduction. More than 50,000 public servants have moved from the "core" public service (for which Treasury Board acts as the employer) to "separate employers" like the Canada Customs and Revenue Agency.

9.6 Knowledge workers now constitute 55 percent of public servants (up from about 33 percent 15 years ago). They are bringing new expectations to the workplace, heightening the need for change.

9.7 The percentage of public service employees aged 45 to 54 has almost doubled over the last 14 years, and 70 percent of executives could retire within 10 years. This is generating concern about a potential leadership crisis. Moreover, youth are underrepresented: the percentage of public servants under 35 years of age is roughly half that in the Canadian work force.

9.8 In 1996, the Treasury Board Secretariat estimated that there were 840 separate pay rates and 70,000 rules governing pay and benefits. In 1997, there were more than 12,000 pages of instructions in the Treasury Board's personnel and pay administration manuals. It takes 119 calendar days on average to complete a closed competition in the core public service, not including added time to deal with any appeals. This is about twice as long as reported by selected quasi-public organizations. For a new position that needs to be classified, staffing takes 230 calendar days on average — almost eight months.

In its corporate response, the government agrees on the need for a strong human resource management framework and on the importance of the health of the public service. It is more optimistic than the Auditor General on some matters, and notes recent initiatives to address some issues. In a supplementary response, the Public Service Commission indicated its continuing efforts to improve staffing systems and to engage in a dialogue with Parliament.

Transport Canada

Airport Transfers: National Airports System

Chapter 10 – Main Points

10.1 Our audit examined how Transport Canada handled the transfers of Canada's largest and busiest airports between 1992 and 1999. These airports make up Canada's National Airports System. Under the transfer agreements, Transport Canada retains ownership of the airports but leases out their management, operation and development to bodies known as airport authorities. Our audit concentrated on the financial and oversight aspects of airport transfers in the National Airports System (NAS), not on security and safety.

10.2 We found many significant weaknesses in management practices. Among our most important observations are the following:

- Before it started the lease negotiations for each airport transferred in the second round, and any renegotiations, Transport Canada did not determine the fair market value of the airport assets and business opportunities it was transferring. Such information is fundamental to both negotiating and renegotiating leases and, in our view, its absence represents a clear departure from sound management practice. The quality of information for making decisions on such things as rent is significantly impaired as a result.
- The Department has renegotiated four leases, at a cost to the government of about $474 million in forgone rent ($342 million net present value). The renegotiated deals do not adhere to some of the government's key directions. Further, Transport Canada cannot demonstrate how the deals for all of the transferred airports are equitable, uniform, consistent and fair, one with the other, as the government directed.
- As a result of renegotiations, the government has, in effect, agreed to a reduction of future revenues of the Crown and to the funding of significant capital projects. The information presented to Parliament on forgone rent and the funding of capital projects was fragmented, incomplete and, in some years, non-existent.
- From 1992 to 1999, the government continued to provide financial support to most of the transferred airports. It provided to the airport authorities a total of $360 million, including $118 million in rental credits at Lester B. Pearson International Airport toward a number of renovation projects. The government received a net total of $593 million in rent from airport authorities in this period.
- As assessed by its consultants, the Department's preliminary financial results indicated that five years after transferring the first four airports in 1992, the government's most likely financial position varied significantly after each transfer — from better off to worse off. Although the analysis had been completed — as part of three separate studies with a total cost of $680,000 — a year before our audit ended, we found that Treasury Board and Cabinet had not yet seen the results. The Department has yet to conduct any such analysis for any of the other transferred NAS airports.
- We are concerned that eight years into the transfer process, Transport Canada has yet to clearly define its role as landlord and overseer of the National Airports System. Its handling of key emerging issues such as those related to airport improvement fees, subsidiaries and sole-source contracting has generally been inadequate and, until 1997, was virtually non-existent. Treasury Board and/or Cabinet have received little information on these issues, and some of what they have received has been incomplete and inaccurate.

Background and other observations

10.3 Airports in the National Airports System have been transferred in two rounds. In 1992, Transport Canada leased out the management and administration of four major airports — at Montreal (Dorval and Mirabel), Vancouver, Calgary and Edmonton — to four "local airport authorities". The second round began in 1996 with the transfer of Toronto's Lester B. Pearson International Airport. Since then, 12 other airports, including those at Ottawa, Victoria, Winnipeg and Moncton, have been transferred to "Canadian airport authorities". At the end of our audit, the last four NAS airports — Gander International, Québec/Jean-Lesage International, Fredericton and Prince George — remained to be transferred.

10.4 Although Transport Canada began transferring airports in the late 1980s and has been leasing out airports since 1992, only in 1994 was the National Airports Policy issued. The government saw transfers as a means of funding expansion in the vital National Airports System, making airports more competitive and viable and giving communities the flexibility to use them as tools for economic development. At the same time, Transport Canada would be able to oversee the entire System.

10.5 Transport Canada notes that a number of aspects of the transfer initiative have been positive and that airport authorities have made some strategic choices that have also represented difficult operational decisions. These included, for example, the expansion of passenger facilities, liberalization of operating policies and relocation of scheduled traffic from one airport to another.

The Department's responses to our recommendations are included in this chapter. While the Department agrees with the majority of the recommendations and indicates the steps that it is taking or intends to take to address them, it takes a different position on a number of issues as reflected in its response following paragraph 10.106.

Human Resources Development Canada

Grants and Contributions

Chapter 11 – Main Points

11.1 Our audit examined four of the grant and contribution programs included by Human Resources Development Canada (HRDC) in its 1999 internal audit. We concluded that there were widespread deficiencies in the management control frameworks of all four programs. Our findings, which covered the period to December 1999, confirmed — and extended — those of the Department's 1999 internal audit. Among other things, we found breaches of authority, payments made improperly, very limited monitoring of finances and activities, and approvals not based on established processes.

11.2 The results that projects were to achieve were often not defined in terms that could be measured. Even when they were (as in the case of Youth Internship Canada), results were not measured systematically to provide managers with feedback for making necessary improvements and to provide a basis for accountability. Some evaluation of these programs had been done. The evaluations of the Sectoral Partnerships Initiative and Transitional Jobs Fund resulted in some program changes. However, we could not support the Department's findings on the effectiveness of the Transitional Jobs Fund.

11.3 The Department's review of 37 "problem files" identified by its internal audit for further follow-up established few cases where money could be recovered from project sponsors, because most payment errors resulted from inappropriate practices by departmental staff. Many of these practices are not acceptable — proceeding without required approvals, relying on oral contracts and paying for ineligible expenses, for example. Reporting by HRDC on the results of the review focussed on overpayments and provided little information on the problems found.

11.4 Current management is committed to addressing the serious weaknesses in the management control framework in the period up to December 1999 that our audit and the 1999 internal audit identified. HRDC has corrective action planned and being implemented in response to the problems identified in its 1999 internal audit. The actions and plans also address the deficiencies we found in our audit.

11.5 The Department has made good progress toward meeting the commitments in its Six-Point Action Plan announced in February 2000. Management is enhancing the tools and the support available to staff to improve their ability to do their jobs. Work is also proceeding on additional initiatives that expand or complement the original action plan.

11.6 HRDC management will need to sustain its efforts and attention if it is to achieve the broad-based systemic change the action plans envision. Beyond the immediate corrective steps the Department has taken, it needs to make today's extraordinary effort tomorrow's routine and fundamentally change its day-to-day approach to the delivery of grants and contributions. Management and staff of the Department need to continue the current focus on the fundamentals of control. Minimum standards of control must be in place for all projects. However, time and effort needed to review and assess proposals, monitor progress, assess performance, and evaluate results should vary with the amount of federal funding involved and the risks associated with the project.

11.7 HRDC has established an innovative system of tracking performance — one that allows for tracking improvements in the management and administration of grants and contributions. Ongoing performance tracking and internal audit are essential tools for assessing improvements in the management control framework.

Background and other observations

11.8 HRDC spent about $3 billion in 1999-2000 on grants and contributions for programs such as job creation and youth employment, as well as for employment benefits and support measures. We examined in detail four of about 40 grant and contribution programs run by HRDC: the Transitional Jobs Fund and its successor the Canada Jobs Fund, Youth Internship Canada, Social Development Partnerships and the Sectoral Partnerships Initiative.

11.9 HRDC's problems in managing grants and contributions worsened in the 1990s; audits in the late 1990s show the persistence of problems identified in the past. An internal audit in 1991 and its follow-up in 1994 led to little corrective action. Management's priorities then were to implement major policy initiatives and improve service; there was not enough emphasis on maintaining essential controls while red tape was being reduced and service improved.

11.10 More work is required to determine the resources needed to deliver grant and contribution programs. The Department's corrective actions and plans are designed to strengthen capacity by providing staff with appropriate support, training, tools and systems. HRDC is also taking steps to bring in new staff at appropriate levels. It plans to analyze workload to ensure that it has adequate resources in place.

11.11 The programs we audited had made available general information about their existence. For the most part, the promotion of these programs was passive and, in the case of some programs delivered at the local level, varied significantly among regions and local offices. Information was not always provided in a way that would promote equal access to the programs.

The chapter includes the Department's general response and its responses to specific recommendations.

HRDC has responded positively to our findings and recommendations and affirmed that it will continue to sustain the progress shown to date in meeting the commitments of the Action Plan and related initiatives.

Values and Ethics in the Federal Public Sector

Chapter 12 – Main Points

12.1 Canadians expect that the federal public sector will be a world leader in promoting sound values and ethics in government. Ensuring sound values and ethics is a vital part of good governance that supports and respects fundamental democratic values.

12.2 A comprehensive and sustained dialogue with Canadians and throughout the federal public sector is required. We propose a framework for action that includes eight priorities. We suggest that action start with the following two priorities.

- Reinforce leadership for promoting ethical conduct by, for example,
  - clarifying the principle of ministerial responsibility and the responsibilities of officials; and
  - identifying the responsibilities of senior and line managers for promoting sound values and ethics.
- Re-invigorate an extensive dialogue on values and ethics that emphasizes the primacy of the principles of respect for the law, the public interest, and public service as a public trust.

12.3 Sound values and ethics are needed to maintain probity. There is a strong foundation of values and ethics in the federal public sector. This foundation should not be taken for granted. The government is taking steps to maintain sound values and ethics. Most of these measures are limited or in their preliminary stages. To increase the likelihood of success, values and ethics initiatives have to be carefully developed, implemented, and monitored by using the best available practices. A prerequisite for success is the leadership of parliamentarians, ministers and senior officials.

12.4 The federal government needs to develop an implementation plan with deadlines to address values and ethics priorities across the public sector and in federal entities. We will continue to monitor and report to Parliament on values and ethics initiatives in the public sector.

Background and other observations

12.5 We focussed on values and ethics initiatives that promote ethical decision making that is in the public interest. These initiatives would form part of a comprehensive approach to good governance in federal entities.

12.6 In May 1995 we reported to Parliament on ethics and fraud awareness in government. In 1996 the government completed A Strong Foundation: Report of the Task Force on Public Service Values and Ethics (Tait Report). These reports contributed to forging a consensus on the values and ethics issues that need to be addressed in the federal public service.

12.7 Ensuring ethical decision making is the responsibility of all members of the federal public sector and private sector companies as well as organizations and individuals who receive funds from or do business with the public sector.

12.8 Major changes are occurring in the way government organizes and delivers its programs. These changes include deregulation, downsizing, increasing delegation of decision making to officials in the field, contracting out and entering into partnerships with the private sector. As well, the government is using new technologies, and its work force is becoming more mobile and diverse. As a result, the government is increasingly relying on a strong foundation of values and ethics to make decisions in the public interest.

12.9 As part of good governance efforts, several departments are implementing major values and ethics initiatives. Others do not assign a high priority to developing comprehensive values and ethics initiatives. We believe that all entities should objectively assess and report on values and ethics.

The responses of the Privy Council Office, the deputy minister co-champions for values and ethics in the public service, the Secretary of the Treasury Board and the Ethics Counsellor are included at the end of this chapter. They agree with our assessment of the initiatives under way and acknowledge that there is an important need for further work.

Assessment of Financial Management Capabilities in Departments

Chapter 13 – Main Points

13.1 Our audit assessed the financial management capabilities in five government departments against the criteria established in the Financial Management Capability Model published in April 1999. We found that in each department gaps remain between current expectations for financial management and the existing capabilities of the departments. The capabilities needed to meet current expectations are consistent with those we have described in the Control Level of the Financial Management Capability Model.

13.2 We also noted that departments are at the initial stages of developing the capabilities needed to meet the requirements of the government's Financial Information Strategy and the Modernization of Comptrollership initiative. These capabilities are consistent with the capabilities described in the Information Level of the Financial Management Capability Model.

13.3 Based on the level of financial management capabilities in the departments that we audited, the challenges to be met in improving financial management are substantial. Only one department is close to meeting all the government's current expectations and none currently have the capabilities needed to meet the goals of the Financial Information Strategy and Modernization of Comptrollership initiative. Put simply, it will be very difficult to make government more businesslike if stronger financial information is not well integrated into both day-to-day management and accountability reporting to Parliament. The achievement of these capabilities throughout government will require the strong commitment and sustained support of the Treasury Board Secretariat, Privy Council Office and deputy ministers.

13.4 Our Office has expressed concern about the need to improve financial management in government for a number of years. Similarly, the Public Accounts Committee has noted, "There has been a common call for improvements in financial information to support government decision making." We have noted an increase in the number of initiatives being undertaken and a heightened sense of urgency to develop strong financial management capabilities. The government and the departments themselves have much to do in this area. The success of Results for Canadians — A Management Framework for the Government of Canada, the Financial Information Strategy and the Modernization of Comptrollership initiative will depend on this action.

Background and other observations

13.5 Financial management is an important component of what financial and program managers in departments and agencies do in delivering programs and services and exercising stewardship over the resources entrusted to them. An integrated and systematic approach to financial management allows managers to have the information to make sound decisions, manage risks well, and account properly for the use of public resources. Until recently, financial management has focussed on controlling budgets and processing transactions. Today's rapidly changing environment makes it urgent for the government to implement effective financial management.

13.6 We noted that departments had not implemented adequate monitoring of the effectiveness of their control frameworks. Such monitoring, together with providing assurance to senior management that control mechanisms are operating as designed, is an important component of sound management, particularly in a period of significant change that accompanies the implementation of new financial systems.

13.7 One of the most common gaps that we found in departments was the limited ability to combine or integrate financial and operational (non-financial) information. This gap has clear implications for individual departments and the government as a whole. First, if departments cannot integrate this information, they cannot give Parliament and the Canadian public a realistic picture of how much it has actually cost to produce a given result or deliver a given level of service. Second, without integrated information, senior management cannot readily forecast the downstream costs of major decisions — for example, a decision to increase or decrease the level of service of a program.

13.8 We also found that departments had not established a clear vision or strategy for the transformations that are to take place — an essential first step in managing the changes. Similarly, departments have not determined the skills and capacities that are needed to carry out these changes or whether there is a gap between what is needed and what they currently possess. We also noted that departments had not implemented specific measures against which progress in developing strong financial management capabilities can be tracked.

The response of the Treasury Board Secretariat, on behalf of the government and the five departments audited, is included at the end of this chapter. The response indicates that the recommendations are consistent with the current improvement plans and government expectations of sound management practices.

The responses of Canadian International Development Agency, Environment Canada, Fisheries and Oceans, Health Canada and Transport Canada are included in the case studies in the chapter. The responses indicate an intent to address the gaps identified and that in many cases initiatives are already under way.

Canadian International Development Agency

Managing Contracts and Contribution Agreements

Chapter 14 – Main Points

14.1 In CIDA's Geographic programs, contracts and contribution agreements with Canadian executing agencies are used to implement development projects. Where CIDA used a competitive process for selecting executing agencies, with some exceptions the process was properly conducted. However, we observed instances where contracts did not comply with the Treasury Board Contracting Policy or the Government Contracts Regulations.

14.2 An authority framework, similar to that for the contracting process, is not in place for CIDA's contribution agreements. The terms and conditions for grants and contributions related to the Geographic programs are very general and provide no direction on how and when to use contribution agreements. They include a provision that contributions are to be approved in accordance with regular departmental procedures and authorities; however, exceptions can be dealt with internally by CIDA. Consequently, CIDA's use of contribution agreements to select executing agencies often varied from its stated internal policies or practices. CIDA can select executing agencies by means of contribution agreements, which are, in effect, the same as sole-source contracts that would not be permitted under Government Contracts Regulations. This was the case in about half of the contribution agreements we examined.

14.3 CIDA project officers attach considerable importance to monitoring the agreements under their responsibility. They commonly use monitors under contract to review and report on progress, and they insist on receiving reports from Canadian executing agencies as required.

14.4 For the Voluntary Sector program, the Canadian Partnership Branch obtains reasonable information on the financial health of its Canada-based partners. However, limited information is received on projects that were funded, on the amounts spent on them, and on results obtained. CIDA bases its funding primarily on historical levels rather than on partners' performance. More meaningful and accurate information on the Canadian Partnership Branch is needed in CIDA's Performance Report to Parliament.

Background and other observations

14.5 CIDA is responsible for managing about $1.8 billion of Canada's international assistance. Approximately $700 million of that amount goes to Geographic Branches for programs aimed at countries in Asia, Africa and Latin America. Most of this amount is spent through contracts and contribution agreements with third parties, referred to as executing agencies, to deliver development assistance projects. Another $260 million goes to the Canadian Partnership Branch for grants and contributions to organizations to carry out their own aid programs.

14.6 In 1998, our Office published a report that commented on results-based management related to Geographic programs. We concluded that progress in managing for results was evident but uneven.

14.7 This audit focussed on how CIDA's Geographic Branches manage contracting and other types of agreements for goods and services, including the selection of Canadian executing agencies to deliver projects. It also examined the control framework for agreements in the Canadian Partnership Branch's Voluntary Sector program. The audit aimed to assess whether CIDA's contracting/contribution agreement processes respect Government Contracts Regulations, Treasury Board guidelines and its own policies; whether they are fair and transparent; and whether they meet operational requirements and development needs.

The Agency's responses to our recommendations are included in this chapter. The Agency accepts the recommendations and indicates the actions that it is taking or intends to take to address them.

Health Canada

First Nations Health: Follow-up

Chapter 15 – Main Points

15.1 Health Canada has initiated action to address our observations and recommendations on First Nations Health (1997 Report, Chapter 13). However, we are concerned that the Department has not yet made sufficient progress to fix many of the problems we identified. Continued and sustained effort is required to ensure that all the recommendations are fully implemented.

15.2 We found that:

- the point-of-service system, a key mechanism in the administration of pharmacy benefits and the control of prescription drug use, is now fully operational. It provides drug utilization warning messages to assist pharmacists in deciding whether to dispense prescriptions. As a result, a number of prescriptions have not been filled; and
- a pre-determination process for dental benefits, implemented nationally since 1997, has resulted in substantial savings.

15.3 However, we observed that:

- the management of contribution agreements for the delivery of community health programs is still weak;
- the management of transfer agreements still needs improvement; and
- Health Canada has not adequately monitored the drug utilization warning messages that pharmacists have overridden. Nor has it undertaken sufficient analysis of the effectiveness of the messages to determine whether any adjustments are warranted.

Background and other observations

15.4 Health Canada delivers health services and other related services to over 600 First Nations communities. It delivers them mainly through community health programs (including those transferred to community control) and the Non-Insured Health Benefits program, which covers such benefits as prescription drugs, dental care, medical transportation, and other benefits. Together, these services represented spending of just over $1.0 billion in 1998-99.

15.5 Our 1997 audit found that Non-Insured Health Benefits program expenditures were not well managed and, in most areas, not properly controlled. In particular, significant weaknesses in the management of pharmacy benefits allowed clients to access extremely high levels of prescription drugs. We noted numerous reports of prescription drug addiction and prescription-drug-related deaths of First Nations individuals in several provinces. We also found weaknesses in the management of contribution agreements for the delivery of community health programs as well as in the management of transfer agreements.

15.6 Our follow-up found that the Department has made limited progress in ensuring that reports required under separate contribution agreements are provided. We also found that the Department's performance reports contain limited information on the status of community health programs, including outcomes achieved.

15.7 With respect to transfer agreements, we found that community health plans are still not being updated when agreements are renewed, and requirements for audits, annual reports and evaluations often are not met.

15.8 The Department developed and implemented a protocol for following up with clients, physicians, pharmacists and professional bodies on cases that suggest possible prescription drug misuse. This has had some positive impact, with some regions starting to show a decline in the number of cases of individuals accessing large amounts of prescription drugs. However, as management was unsure of the appropriateness of the approach in the absence of either client consent or specific statutory authority for the Non-Insured Health Benefits program, this intervention was stopped in May 1999. There are still cases of program clients accessing large amounts of prescription drugs, and these require follow-up.

15.9 The Department was slow to develop and incorporate an audit strategy based on an appropriate assessment of risks in its new pharmacy and dental claims-processing contract. It also failed to ensure that the contractor perform the on-site audits of pharmacies and dental providers that the contract requires. We found few such audits undertaken since December 1998 to provide assurance that expenditures claimed had been incurred for the intended purposes.

15.10 Progress to improve efficiencies in administering medical transportation benefits has been limited.

Health Canada's responses to our recommendations are included in this chapter. The Department is continuing with corrective action in response to our 1997 recommendations and has agreed to take action in response to our two new recommendations.

Follow-up of Recommendations in Previous Reports

Chapter 16 – Main Points

16.1 This chapter presents our follow-up of six audits originally published between 1995 and 1998. In the final volume of this year's Report, due to be tabled in December 2000, we will publish an additional follow-up chapter and provide a general conclusion of the government's progress in addressing the concerns we raised in previous reports.

16.2 The policy and legislative environment of the financial services sector has changed considerably since our 1995 and 1997 Reports. Canada's regulatory system for this sector is sound and the Office of the Superintendent of Financial Institutions (OSFI) has taken many satisfactory steps to deal with our previous recommendations. However, with all the expected changes that will affect the financial services sector, OSFI's ability to supervise and regulate could be challenged in the short term. Furthermore, in this changing environment, recruiting and retaining employees will become a bigger challenge.

16.3 Although progress has been slow on addressing the recommendations of our November 1995 chapter — Revolving Funds in the Parliamentary System: Financial Management, Accountability and Audit — recent initiatives by the Treasury Board Secretariat substantially address our recommendations.

16.4 The Canada Industrial Relations Board, formerly known as the Canada Labour Relations Board, has made progress in addressing our concerns about financial control problems. Payment to former members was the single biggest expenditure of the Canada Industrial Relations Board's $1.7 million in transition costs. We also observed that the government, as a whole, has not taken adequate action to improve the accountability framework governing travel and hospitality expenditures of senior Governor in Council appointees.

16.5 National Defence has made significant progress in addressing its lack of plans and priorities for its capital acquisition program. The management of individual major capital projects has also improved. The Department has gone beyond its original commitments to make improvements. Nevertheless, officials estimate that the Department is still about $750 million a year short of the amount needed to modernize and maintain readiness. The "hard choices" referred to in 1998 have been identified, but not all of them have been made.

Other Audit Observations

Chapter 17 – Main Points

17.1 The *Auditor General Act* requires the Auditor General to include in his Reports matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

17.2 The "Other Audit Observations" chapter fulfils a special role in the Reports. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments, or they report on audits and studies of issues that relate to operations of the government as a whole. This chapter reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

17.3 The chapter normally contains observations concerning departmental expenditures and/or revenues. The issues addressed generally involve failure to comply with authorities, and the expenditure of money without due regard to economy.

17.4 Observations reported in this chapter cover the following:

- Space was leased at an excessive cost for a Canada Business Service Centre in Sydney, Nova Scotia that was never operated as intended;
- Inappropriate netting of benefit payments obscures the true size of government revenues and expenditures and complicates the evaluation of fiscal measures;
- Government programs and spending for Parc Downsview Park Inc. lack clear parliamentary authority;
- Non-recovery of expenditures for safe drinking water on Indian reserves affected by Manitoba Hydro development; and
- Significant risk that a $113 million relocation project will not adequately address the needs of the Innu.

17.5 Although the individual audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters we did not examine.

Governance of Crown Corporations

Chapter 18 – Main Points

18.1 The management of Crown corporations has improved since the *Financial Administration Act* was amended in 1984 to strengthen their control and accountability framework. Nevertheless, further improvement is needed in some important areas like strategic and corporate planning and the measurement and reporting of performance. We found a need for special attention in three areas that are central to the way Crown corporations are governed:

- Boards of directors of Crown corporations need to be strengthened. They reflect Canada's diversity but lack other key skills and capabilities that are needed to function effectively and to carry out their important responsibilities under the *Financial Administration Act* for the affairs of the corporation. Corporations need to better define their requirements for skills and capabilities and communicate them to the government; the government needs to act on those requirements. Boards of directors also need to be more engaged in the selection of their chair as well as the corporation's chief executive officer (CEO). Without meaningful board involvement in the selection of the chief executive officer, his or her accountability to the board is weakened and corporate governance as a whole suffers.
- Audit committees in Crown corporations play a crucial role in financial reporting, risk management, and internal control. They are the "engine" of the board of directors. Yet half of the audit committees we examined were operating below an effective level. Serious weaknesses in an audit committee can undermine the overall strength of the board.
- The government has a limited capacity for reviewing and challenging Crown corporation corporate plans as a basis for approving them. Corporate plans set out the strategic direction of a Crown corporation and are intended to be the cornerstone of the Crown corporation control and accountability framework under the *Financial Administration Act*. The government needs to strengthen its capacity to review and challenge these plans since, once approved, they are the basis for holding Crown corporations accountable for conforming to government policy and for their overall performance. Furthermore, there is a need for a more systematic and regular review of the relevance of Crown corporation mandates.

18.2 Weaknesses in all of these areas impede the successful implementation of Part X of the *Financial Administration Act* and the quality of Crown corporation governance. They have been raised many times before, in Auditor General reports and other external studies and reports, but the weaknesses remain. Crown corporation CEOs and chairs view the resolution of these issues as critical and they need to be addressed with urgency. Other industrialized countries have moved ahead of Canada in these areas of Crown corporation governance.

18.3 Corporate governance refers to the process and structure for overseeing the direction and management of a corporation so that it carries out its mandate and objectives effectively. It is critical that a Crown corporation, as a public sector body, be governed well if taxpayers' money is to be well spent. Good corporate governance is important to maximize performance, prevent financial losses and help to achieve the corporate mandate. But it is in times of difficulty, turbulence and change that good governance is most critical.

Background and other observations

18.4 Crown corporations are distinct legal entities wholly owned by the government. They operate in many sectors, including transportation, agriculture and culture. They have more autonomy to manage than most other government entities so they can operate in a more commercial manner. A board of directors oversees the management of each corporation and holds management responsible for the corporation's performance. The government retains power and influence over Crown corporations in areas like appointments, remuneration for chief executive officers and directors, and approval of plans and budgets.

18.5 Crown corporations account for a significant portion of government activity. There are currently 41 federal Crown corporations (not including subsidiaries), employing 70,000 people. In aggregate (excluding the Bank of Canada), they manage $68 billion in assets and $61 billion in liabilities. While Crown corporations represent a significant opportunity to achieve public policy and other goals and to generate revenue, they also represent significant exposure to potential financial losses and other risks.

18.6 In addition to our continuing work as auditors and examiners of most Crown corporations, we looked in detail at a representative group of 15 Crown corporations. We also compared Canadian Crown corporations with state-owned enterprises elsewhere, and used the results of other research, studies, audits and roundtables to support our findings. In addition, we summarized the results of special examinations — a type of value-for-money audit of Crown corporations — carried out between 1984 and 2000.

In view of the fact that many of the recommendations deal with Governor in Council discretion, no detailed responses to the recommendations were made. Overall, the Privy Council Office states that the government has made strides in a number of corporate governance areas, and is committed to examining measures to address areas needing improvement and to ultimately strengthening governance in Crown corporations. The Privy Council Office also states that it is paramount to ensure that appointments to Crown corporations result in strong boards of directors, and that the appointment process for Crown corporations be inclusive of all interested parties, bearing in mind that appointments remain at the discretion of the government.

Reaction from Crown corporation chairs and CEOs indicate that, for the most part, they agree with the recommendations directed specifically at them.

Reporting Performance to Parliament

Progress Too Slow

Chapter 19 – Main Points

19.1 Federal departments and agencies have made some progress in reporting on their performance to Parliament, but we are disappointed at its present pace. Continued at this rate, it would take too long for good reporting to become routine. We recognize that reporting on performance is not easy, and it takes time. Still, we believe that the effort deserves more attention: members of Parliament need information on what Canadians are getting for their taxes in order to hold the government to account. Good performance reporting has become an essential part of modern democratic systems.

19.2 To that end, it may be time for legislation. Several jurisdictions in Canada now have legislation requiring government to report on its performance to the legislature. Legislation highlights the importance of good reporting and puts it on a more permanent and stable footing.

19.3 Our examination of the Estimates documents — reports on plans and priorities and departmental performance reports — of 47 departments and agencies over the past four to five years found the following:

- While there has been progress, few departments set out concrete statements of what they expect to achieve and then report back specifically against those expectations.
- In reporting what they have accomplished, departments focus too much on listing activities and outputs and too little on linking them to and reporting on the intended outcomes.
- Reporting makes too little use of evaluation findings on the results that activities are accomplishing and on how programs are contributing to outcomes.
- There is little linking of financial and non-financial performance information; most accomplishments are not costed.
- Performance reports lack balance. Most departments report only the "good news" and make little mention of performance that did not meet expectations. As members of Parliament have said repeatedly, reports that present only good news are not credible.

19.4 We noted that the Treasury Board Secretariat has provided leadership for reporting. And we did find pockets of good reporting and a number of strengths in the present regime of reporting. Nevertheless, after five years of experimenting, departmental reporting overall has only improved modestly.

19.5 Three factors stand out as contributing to the current weak state of reporting:

- basic principles of good reporting are not understood or applied;
- performance reporting has political dimensions; and
- there are few incentives for good reporting or sanctions for poor reporting.

19.6 In addition to considering legislation, in our view the government needs to make the following changes in the present reporting regime:

- reach agreement on principles for reporting performance information;

- give more attention to the right incentives for incorporating evidence-based approaches into reporting;
- ensure stronger oversight by the Treasury Board Secretariat; and
- seek to enhance the involvement of parliamentarians in reviewing performance plans and reports.

Background and other observations

19.7 Federal departments submit performance reports to Parliament in the fall every year, outlining what they have accomplished. The reports are subject to consideration by their respective parliamentary standing committees. Review of the reports at that time would enable parliamentary committees to make recommendations for the upcoming spending decisions to be announced by the government later, in the Budget. In the spring, after the Budget, departments submit reports on their plans and priorities, describing what they are setting out to achieve in the upcoming year and beyond.

19.8 In 1997 we first reported on this new regime for reporting to Parliament. We found that a good start had been made and that the basic framework used for reporting was sound.

19.9 Credible reporting on performance has a number of benefits: it can enhance accountability and trust in government, provide information for improved programs and services and better parliamentary scrutiny of them, and serve as an incentive for departments and agencies to manage for the results they have set out to achieve.

19.10 On two occasions in recent years, the Standing Committee on Procedure and House Affairs has issued reports with recommendations on ways to provide for greater involvement of parliamentarians in the review of the Estimates.

19.11 The President of the Treasury Board annually tables, along with the departmental performance reports, a report in Parliament on government performance measurement, reporting and results-based management. In recent years it has provided useful performance information on collective results — areas where several departments or several governments are working collectively toward a result.

19.12 The Treasury Board Secretariat has taken important steps toward more electronic reporting. It needs to encourage departments to make greater use of this vehicle, and gather and share good practices.

The response of the Treasury Board Secretariat, on behalf of the government and the departments audited, is included at the end of this chapter. The Secretariat has responded positively to our chapter and recommendations therein. The Secretariat accepts our recommendations and indicates the actions that, where appropriate, it is taking or intends to take to address them.

Managing Departments for Results and Managing Horizontal Issues for Results

Chapter 20 – Main Points

20.1 In our examination of five large federal departments and 10 programs, we found that several departments have made tangible efforts to focus on results. There was evidence of commitment and support by senior management, extensive planning activities, identification of key performance indicators and some measuring against them.

20.2 However, we found that only 4 of the 10 programs have information on results that is used routinely. In most departments we examined, the persistent state of planning for results — rather than actually managing for results — has meant that progress in using information on results has been limited since we reported on this issue in 1997. It is time for departments to move beyond planning. There is a need for more widespread measurement of the results they accomplish and use of that information to improve programs.

20.3 The government needs to ensure that the evaluation function plays a more central role in its move toward managing for results. The evaluation capacity in many departments has atrophied at a time when more effort, not less, is needed to measure the results of programs.

20.4 More and more, the government needs to manage initiatives that span two or more federal departments. "Horizontal" issues like the Federal Disability Agenda are often key priorities of government. Our study of three horizontal issues found that, like many departmental programs we audited, they were not being managed for results.

20.5 Over the past several years, the government has been clear about the importance of making results central to good management and accountability, and this vision is increasingly being accepted across government. However, bringing that recognition into practice will require central agencies to play a stronger role. They need to provide encouragement and support for departments to move beyond merely planning for results. We found the Treasury Board Secretariat's leadership too limited and its support too dispersed to be of real help to departments trying to manage for results. Nor does the Secretariat have a strategy for dealing with horizontal issues. It needs a strategic approach to these issues, given their growing presence in government.

Background and other observations

20.6 Managing for results allows managers to make changes once they know what is working and what is not. It represents a significant difference in the way government programs are managed. Managers can then pay more attention to finding out whether programs are meeting their objectives and less to only carrying out activities or setting up structures and processes.

20.7 The concept of managing for results is now widely accepted across government. As a first step in putting it into practice, most departments had to realign their management structures and processes according to the results they were seeking, and not to their programs or activities. Each department had to establish department-wide objectives and think through how it wanted to structure itself in terms of the results it expected. Most of the departments we audited were engaged in significant efforts to plan how they would manage for results.

20.8 In managing a horizontal issue for results, it is critical to have a co-ordinating function that is supported by senior management (particularly in a lead department) and that has enough resources to do the job.

20.9 Departments receive limited practical guidance on managing for results, and there is little sharing of experience. They need more encouragement to move beyond planning for results; there is also a need to identify champions.

20.10 While managing for results presents challenges, there are known, practical ways to deal with them. They require that people embrace the idea of learning from experience — which includes learning from mistakes. It involves bringing more rigour to understanding past experiences and then adjusting practices in light of this learning.

The response of the Treasury Board Secretariat, on behalf of the government and the departments audited, is included at the end of this chapter. The Secretariat accepts our recommendations and indicates the actions that it is taking or intends to take to address them.

Post-Secondary Recruitment Program of the Federal Public Service

Chapter 21 – Main Points

21.1 Our review of the Post-Secondary Recruitment program in the federal public service found that the Public Service Commission of Canada is recruiting qualified candidates. But there are too few of them given the significant number of public service executives, professionals and managers who will be eligible to retire in the near future. The government has to immediately address the recruitment issue so that it can continue to deliver programs and provide services of quality to Canadians.

21.2 We found weaknesses in the program's efficiency and effectiveness in the following areas:

- Forecasting of recruitment needs is not clearly spelled out. Without a clear idea of the number and type of employees needed, it is difficult to establish clear recruitment levels and develop appropriate recruitment strategies.
- The recruitment levels under the program have not been met consistently.
- In light of the increased competition for university graduates, the Commission needs to be a more aggressive recruiter of graduates. There has to be better promotion of the public service as a career choice, increased visibility on campus and improvement in scheduling and timeliness of recruitment.
- Very few departments participate in the program, which limits its capacity to renew the public service.
- The Commission does not establish and manage inventories of qualified candidates for departments.
- The program and its activities have not been evaluated consistently and systematically to improve their effectiveness and efficiency. As a result, it makes it difficult for the government to take appropriate corrective action on recruitment.
- Reporting of results is not adequate.

21.3 We are concerned about the government's ability to address the recruitment challenge.

Background and other observations

21.4 The public service has become significantly older. Seventy percent of executives could retire by 2008, and the feeder groups, the people who could eventually replace them, have a similar retirement profile. Public servants under 35 years of age are underrepresented.

21.5 For existing senior executives, it took an average of 10 years for them to move from a professional entry level to an executive level. Recruitment has, therefore, become imperative to ensure a well-functioning public service in the future.

21.6 The public service has changed and requires a higher proportion of knowledge workers than in the past. Today, these workers constitute 55 percent of public servants.

21.7 Recruitment has been an issue in the public service for at least 10 years. Many reports, and more recently the 1999 Speech from the Throne, have reported the need to recruit for the public service because of demographics and other factors, such as increased competition for qualified candidates.

21.8 It is recognized that an effective and non-partisan public service is essential to the strong functioning of a democratic country. To remain a vibrant institution, the public service must be able to recruit and retain well-qualified employees.

21.9 The government recognizes that recruitment in the public service is a priority. In his March 2000 annual report, the Clerk of the Privy Council stated the following: "We need to start recruiting people now so that we have the time to groom and nurture skills and so new recruits will have time to benefit from the depth of experience and knowledge of public servants across the country."

21.10 We are concerned about the government's ability to address the urgent challenge of recruitment for the years ahead.

The responses of the Treasury Board Secretariat, on behalf of the government and the departments audited, and of the Public Service Commission are included at the end of this chapter. The responses recognize the importance of recruitment and indicate plans to address the issues identified.

Development of the Universal Classification Standard

A Follow-up

Chapter 22 – Main Points

22.1 The Treasury Board Secretariat has made major progress in implementing our 1996 audit recommendation on the development of the Universal Classification Standard for the federal public service. This project is fundamental to the reform of human resource management, particularly for staffing and compensation. It is a monumental and highly complex undertaking that requires much time. The present system is outdated and no longer meets the requirements of today's public service and tomorrow's.

22.2 In the last few years, the Secretariat has designed a standard intended to measure the content of diverse types of work in the public service, and has subjected it to a series of tests in departments. Since 1998, departments have been writing new work descriptions for all positions and evaluating them against the Standard. In the course of this project, the Treasury Board Secretariat has developed and issued guides and methodologies based on best practices in job evaluation.

22.3 Despite these achievements, the government still has to address significant issues:

- The Treasury Board Secretariat needs to ensure that the new Standard is being applied appropriately before fully converting to it.
- Departments need to ensure that their work descriptions are accurate and their position evaluation results valid and adequate.
- The Secretariat needs to perform further testing, based on accurate and up-to-date evaluation data, to establish the extent to which the Standard meets its stated objectives to be universal and gender-neutral.
- The government needs to ensure that reasonable and realistic financial resources are available to convert to the new Standard.

Background and other observations

22.4 A classification standard is a measuring tool for determining the relative value of positions in an organization. The Universal Classification Standard, now being developed, must be capable of evaluating all positions in the public service on the basis of work content. The results will be used to establish a hierarchy of positions and the compensation that reflects their requirements.

22.5 The Standard will apply to all Public Service employees for whom the Treasury Board is the employer, with the exception of the executive group. At August 2000, there were some 150,000 positions in 72 separate occupational groups, in some 65 departments and agencies subject to the new classification system. The development of a new classification standard has to meet the requirements of the *Canadian Human Rights Act* on equal pay for work of equal value.

22.6 The existing classification standards do not reflect today's emphasis on serving the public and managing for results. They also do not make reference to the fact that public servants work more and more in partnership with other levels of government and the private sector.

22.7 The development of a new classification standard was launched in 1991 as part of the Public Service 2000 initiative. In 1996, we reported serious deficiencies (May 1996 Report, Chapter 5). Pursuant to our recommendations and the findings of its own review, the government began to improve the Universal Classification Standard. This follow-up chapter is a progress report on the initiative to date.

The Treasury Board Secretariat has responded positively to our findings and recommendations and has affirmed that progress will continue to meet the Universal Classification Standard objectives.

Information Technology

Acquisition of Goods and Services

Chapter 23 – Main Points

23.1 In auditing acquisition activities (procurement) for large information technology projects in the government, we found that two recent acquisitions followed some essential elements of a procurement approach and project management framework designed to improve large technology projects. The approach emphasizes the benefits to be derived from a project, rather than focussing on a specific solution to a business problem. Although both projects are still in the construction phase, they have progressed and delivered as planned. While full implementation and deployment of the new systems are not assured, the results to date are encouraging.

23.2 We found, however, that the acquisition activities still spanned 18 months or more. The government needs to improve the timeliness of those activities to adequately support its objective of putting government on-line by 2004.

23.3 We also examined the acquisition process for the routine supply of microcomputers, equipment for local area networks and software. We found that the government has yet to finish replacing its discontinued method of supply for routine, low-volume purchases of software licences and software solution services. As a result, user departments and agencies do not have a ready, prenegotiated means for low-value purchases of certain software products and services.

23.4 We also found that the replacement method as developed thus far is inadequate, and there is still a risk that the government will continue to acquire installed bases of software on a piecemeal and non-competitive basis. Where user departments and agencies have done so, the government can become vulnerable to the filing of complaints with the Canadian International Trade Tribunal in relation to contracts that extend the use of the software to the entire department or involve department-wide maintenance and upgrade of the software.

23.5 Acquiring software licences and software solution services appropriately continues to be a challenge. The government needs to consider a strategy for acquiring software as a technology investment.

Background and other observations

23.6 Our data analysis showed that the significant expenditures involved in the acquisition of information technology (IT) goods and services have been on the rise. We estimated that in 1998–99, spending on IT amounted to about $3.4 billion, including salary costs.

23.7 The method of supply for routine, low-volume purchases of microcomputers and products related to local area networks has merit and adds value to the acquisition process. Nevertheless, in our view there are opportunities for cost savings of about $10 million a year by taking more advantage of consolidated purchases.

23.8 Our audit looked at eight user departments and agencies. We conducted a test of their compliance with the procurement authority delegated to them. We found a few minor deviations but no indication of blatant or widespread misuse of delegated authority.

23.9 Recent determinations by the Canadian International Trade Tribunal (CITT) were the main reason for changing the standing offer method of supply for routine, low-volume purchases of software licences and software solution services. Moreover, even though CITT cases have been few, government users and the IT community have indicated that they have generated intense scrutiny of all technology acquisitions in government in order to avoid potential complaints to the Tribunal. In our view, there is a need to better respect the government's contracting objectives — meeting operational requirements with due regard to value for money while also respecting the principle of open and fair competition by complying with government regulations and trade agreements.

The government is generally supportive of the recommendations contained in the chapter.

Federal Health and Safety Regulatory Programs

Chapter 24 – Main Points

24.1 The overall objective of health and safety regulatory programs is to proactively protect Canadians from risks to health and safety — to catch the problem before it happens, and if it happens, to minimize the consequences.

24.2 The Canadian Food Inspection Agency, Health Canada, Environment Canada, Transport Canada, the Canadian Nuclear Safety Commission and the National Energy Board administer major federal health and safety regulatory programs. We estimate that in 1999-2000 the regulatory programs administered by these organizations spent about $1.2 billion and employed some 12,000 people. They administer about 85 Acts and 250 regulations. Their objectives range from controlling toxic chemicals to maintaining the safety of food, drugs and nuclear power plants.

24.3 The objective of the government's regulatory policy is to promote the design and implementation of effective regulatory programs. Because performance measurement is weak, there is insufficient information to assess the cost effectiveness of health and safety regulatory programs.

24.4 Over the past decade, our audits of federal health and safety regulatory programs have found many instances where the regulatory authorities have not met the expectations of the government's regulatory policy. While effectiveness cannot be judged solely on the basis of adherence or lack of adherence to the policy, well structured programs increase cost effectiveness and reduce the risk of regulatory failure.

24.5 Improving the structure and implementation of federal health and safety programs will require action government-wide and by the responsible regulatory authorities. In particular, we emphasize the need to ensure the following:

- the government explains to Canadians and the federal regulatory and inspection community the priorities for health and safety regulatory programs, particularly the balance the government has reached between the objective of protecting Canadians, addressing budget concerns and meeting economic objectives;
- reliable information is available on the level of risk and the extent to which it is and can be controlled;
- based on priorities determined by risk assessment, regulatory authorities have sufficient financial and human resources;
- the government identifies major health and safety objectives that can only be achieved through interdepartmental co-operation, and authorities assess officials on the achievement of these objectives; and
- the government annually submits reports to Parliament on the overall effectiveness of health and safety regulatory programs, including reports by lead regulatory authorities on the achievement of objectives that require significant interdepartmental co-operation.

Background and other observations

24.6 We undertook this audit to identify the following:

- major trends and challenges faced by health and safety regulatory authorities;
- patterns of recurring strengths and weaknesses in structure and implementation; and
- measures that could be taken to make significant improvements in the structure and implementation of regulatory programs.

24.7 We used key elements of the government's regulatory policy as a basis for organizing information on patterns of strengths and weaknesses. Our findings are based on the results of our current audits of food inspection programs, nuclear power plant regulation, the regulatory regime for biologics of Health Canada, and follow-up audits of animal health and plant protection, safety regulation for the air navigation system of Transport Canada, and onshore pipeline regulation. They are also based on audit findings from previous Reports of the Auditor General and the Commissioner of the Environment and Sustainable Development. As well, we have taken into account the findings of parliamentary committees, government reports and reports of non-government organizations.

24.8 Canadians are concerned about health and safety risks. Crises or regulatory failures heighten these concerns. However, the government cannot eliminate all risks. Canadians need to be provided with understandable information on health and safety risks and consulted on the choices to be made.

24.9 The public's confidence in the government's use of science and technology to protect the health and safety of Canadians has been shaken by recent crises, for example, the concerns about the safety of the blood supply reviewed by the Commission of Inquiry on the Blood System in Canada (Krever Commission). The use of independent expert advisory committees could be expanded to provide advice and enhance the credibility of the regulatory effort.

24.10 Under the Constitution and in practice, the federal government often shares responsibility for the protection of health and safety with the provinces. Co-operation is fast becoming mandatory, rather than a matter of choice. Increasingly, risks are of a global nature, and multinational action is required. Standards and regulatory approaches among countries are being harmonized through trade treaties or international agreements. This trend means that Canadian regulatory authorities need to co-operate to effectively present a Canadian position in international exercises for setting standards. For these reasons, it is in the interest of all parties to work together and to participate in the development of a national health and safety regulatory plan.

The Privy Council Office states that while the government believes its regulatory policy is sound, it shares our Office's concern. It recognizes the need to ensure that regulatory authorities have the capacity to meet the expectations of the policy — to properly develop and to appropriately implement regulations and regulatory programs.

Canadian Food Inspection Agency

Food Inspection Programs

Chapter 25 – Main Points

25.1 The Agency's food inspection programs are reviewed and generally well regarded by most foreign countries that import our products. This feedback provides a degree of assurance that the Agency's food inspection programs are contributing to the safety of the Canadian food supply.

25.2 Since its creation in April 1997, the Agency has undertaken a number of initiatives to improve the efficiency and effectiveness of federal food inspection — a major reason for its creation. These initiatives include the development of an Integrated Inspection System (IIS) to promote greater consistency between inspection programs; and the introduction of an approach based on the principles of hazard analysis and critical control points (HACCP). The HACCP-based approach is a tool to improve the safety of food through the assessment of hazards and the establishment of control systems that focus on prevention, rather than mainly the reliance on end-product testing.

25.3 While progress has been varied and in a few cases faltered, the Agency has made progress in many of the initiatives. We noted that the Agency has had difficulty in establishing a process to support risk-based resourcing. As a result, the Agency cannot demonstrate that it has appropriately resourced its food inspection programs based on risk. Such a process is needed particularly in the imported food sector, which is worth $15 billion and is growing, and the non-federally registered sector, which represents almost one-half of the food-processing industry. We also noted in the non-federally registered sector that the Agency has changed its inspection approach without adequately assessing overall risks and the options available for managing the sector. Also of concern is the lack of a formal strategy for the implementation of the HACCP-based approach and the setbacks encountered in the IIS.

25.4 We identified problems with the Agency's compliance activities. We examined 21 inspection files from establishments that had issued food recalls or had been prosecuted in the last two years. In 1999-2000, the Agency participated in 243 recalls and had 59 successful prosecutions. We found that in 16 cases, the same or similar problem persisted for many months and in some cases, years. The compliance actions taken were not sufficient to achieve the Agency's goal of timely correction of the compliance problem either because of the limitations in the legislation or a failure by the inspector to take more serious compliance action.

25.5 Measuring the success of initiatives and more broadly the performance of the Agency in achieving its goals is also a concern. We noted that the Agency had not set expectations or measured performance to determine if its initiatives and activities have contributed to a more efficient and effective food inspection system. Our annual assessment of the performance information in the Agency's annual report has consistently noted that readers are not provided with the information necessary to understand the extent to which the Agency is achieving its objectives.

Background and other observations

25.6 The Canadian Food Inspection Agency is the result of the amalgamation of food safety and inspection programs from three federal departments : Agriculture and Agri-Food Canada, Health Canada, and Fisheries and Oceans. It now has some 4,400 employees across the country and manages expenditures of $416 million. The Agency's main activities focus on inspecting the food supply, but it also conducts activities related to animal health and plant protection.

25.7 The Agency is not solely responsible for food safety. It shares this responsibility with other federal departments and provincial, territorial and municipal authorities. Industry and consumers also play an important role. Health Canada is responsible for establishing policies and standards relating to the safety and nutritional quality of food. The Agency is responsible for delivering federal inspection programs that enforce these policies and standards.

25.8 The Agency operates in a complex environment created by a number of factors, including changes in food risks, technology, inspection methodology, international requirements, consumer trends and consumer perception.

25.9 Our audit focussed on assessing how the Agency manages food inspection to reduce risks to food safety.

25.10 We found that a formal strategy for the implementation of the HACCP-based approach is needed. A plan for the transition period, including considering how to manage resources during the transition period needs to be developed. Further, insufficient information has been collected to allow the Agency to measure the success of implementing the HACCP-based approach in improving food safety. It could take many years to develop and implement the further redesign of the HACCP-based approach in the meat industry. This redesign would require industry to perform ante- and post-mortem detection with continuous government monitoring and oversight in the beef and pork industries. It could also take a long time to introduce a pathogen-reduction effort in these industries. This situation is in contrast with the important progress made in the poultry industry.

25.11 The Agency is lacking important information on the incidence of food-borne illness in humans and the prevalence of pathogens in the food supply. This is complicated by the fact that the Agency is not responsible for gathering some of the information. However, without this information, it is more difficult to manage risks to food safety and measure the success of Agency initiatives and its contribution to the safety of the food supply.

25.12 The Agency has consulted the provinces, industry and the public on some, but not all, significant initiatives and issues. As a result, the Agency has missed opportunities for broad public debate on important questions, including the following: How much inspection attention should be paid to the non-federally registered sector given its mandate? Should the Agency continue to provide industry with considerable flexibility in implementing the HACCP-based approach? Should it be leading internationally in implementing the further redesign of the HACCP-based approach in the meat industry? It is important that the Agency engage stakeholders, including Parliamentarians and the public, in a debate on these questions.

The Canadian Food Inspection Agency's responses to our recommendations are included in the chapter. The Agency accepts all but one of our recommendations and has indicated a number of actions it is taking or intends to take to address them. The Agency disagrees with our recommendation relating to the non-federally registered sector. Its position is reflected in its response following paragraph 25.82.

Health Canada

Regulatory Regime of Biologics

Chapter 26 – Main Points

26.1 Our audit of Health Canada's regulatory regime for biologics found that the Department is taking a reasonable approach in developing and implementing frameworks and approaches for regulating different biologics (blood and blood products, cells, tissues and organs of human or animal origin, vaccines and other biological drugs). Our work focusses on the management of the regime for regulating biologics. Therefore, we did not conclude on the effectiveness of specific regulations or on the safety of specific products.

26.2 The Department faces important challenges. It needs to do the following:

- to establish more formal guidance to determine the most appropriate regulatory approach for a given situation;
- to maintain the currency of regulations;
- to obtain sufficiently qualified staff to deal with the rapid technological advances in biologics; and
- to implement sufficient databases to adequately process, analyze and disseminate information on adverse reactions and events.

26.3 Overall, we found that the Department has adopted a proactive approach to identifying risks that could threaten the health and safety of Canadians in the area of biologics. Though the science for xenotransplantation (the use of live, non-human animal cells, tissues and organs in humans) is not perfected, the Department is being proactive in planning a regulatory regime for xenografts. However, many delays have characterized the implementation of the regulatory regime for transplantation of human tissues and organs. Transplants of these types have been performed in hospitals for a number of years.

Background and other observations

26.4 Health Canada is responsible for regulating biologics under the provisions of the *Food and Drugs Act* and Regulations. Accordingly, the Department's objective is to ensure that biologics available to Canadians are safe, effective and of high quality. The Bureau of Biologics and Radiopharmaceuticals does much of this work with several other bureaus in the Therapeutic Products Directorate of the Health Products and Food Branch. As well, the Population and Public Health Branch conducts some surveillance activities.

26.5 The safety of biologics is an important aspect of public health. Rapid advances in science have resulted in increasing regulatory challenges. Many of the federal laws that govern health and safety were developed decades ago. Today, science is yielding new products that up until recently were unimaginable. Some products and practices carry potential health risks and raise difficult questions that current legislation may not be fully equipped to address. It is important that regulations remain current. It is also necessary to ensure that the tools required to put in place regulations — or other interventions — are also current and sufficiently flexible to deal with changing demands.

26.6 The Department follows a traditional approach with prescriptive regulations to regulate most biologics. This framework is well-established and offers some benefits. However, Health Canada believes that the framework is not sufficiently flexible to deal with emerging products and other technological advances in biologics. Therefore, the Department is moving toward adopting a standards-based regulatory approach for blood, tissues and organs, and xenografts. Under this approach, third-party standards development organizations develop standards with Health Canada and other interested parties.

26.7 The Processing and Distribution of Semen for Assisted Conception Regulations (the Semen Regulations) represented the only regulatory framework in biologics that incorporated by reference in the Regulations standards developed by a third party. While this approach appears to offer some benefits including more flexibility to deal with rapid changes in technology, there are some important issues that need to be addressed. The Department needs to ensure that compliance is verified and that accountability is assured for regulations referencing its own technical standards. The Department needs to apply lessons learned from the implementation of the Semen Regulations to future standards-based regulatory frameworks, as applicable.

Health Canada's responses to our recommendations are included in this chapter. The Department agrees with the recommendations and indicates the actions that it is taking or intends to take to address them.

Canadian Nuclear Safety Commission

Power Reactor Regulation

Chapter 27 – Main Points

27.1 The Canadian Nuclear Safety Commission (CNSC) needs to improve its regulatory regime for power reactors to ensure that it continues to protect the health and safety of Canadians.

27.2 While the CNSC continuously monitors the compliance of power reactor licensees with regulatory requirements, its regulatory activities are not based on a rigorous, well-documented system of risk analysis and the ratings it assigns for regulatory performance (acceptable, conditionally acceptable or unacceptable) are not clear. In addition, CNSC's compliance and enforcement system is not yet complete. As a result, it cannot adequately demonstrate that it is achieving its safety objectives for the regulation of power reactors.

27.3 Like other nuclear regulators, CNSC faces significant difficulties in recruiting and retaining qualified staff. Combined with its current regulatory regime, which relies heavily on the expertise and judgment of staff, the lack of human resource capacity could impact its ability to function adequately in the future.

Background and other observations

27.4 The *Nuclear Safety and Control Act* came into force on 31 May 2000. It created the Canadian Nuclear Safety Commission to replace the Atomic Energy Control Board. CNSC is responsible for regulating the use of nuclear energy in Canada to protect health, safety, security and the environment. Our audit focussed on the regulatory activities related to power reactor licensing and regulation.

27.5 The CNSC has 440 staff. Its headquarters are in Ottawa. It maintains a site project office at each of the power reactor stations, where its staff monitor licensee compliance with regulations and the licence conditions. In fiscal year 2000, CNSC had total costs of $59 million.

27.6 In July 1999, of some 440 power reactors in the world, 22 were in Canada — 20 in Ontario, one in Quebec and one in New Brunswick. There were 104 power reactors in the United States.

The Canadian Nuclear Safety Commission agrees with our recommendations and is taking action to address them.

Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

Chapter 28 – Main Points

28.1 This chapter presents our follow-up of three previously reported audits of federal health and safety regulatory programs. The Animal and Plant Health segment is a further follow-up to that reported in Chapter 28 of our 1998 Report.

28.2 Since our 1996 audit on animal and plant health, a number of initiatives have been undertaken within the Canadian Food Inspection Agency to address our recommendations concerning the assessment of risk and alternative service delivery; however, work remains to be done. Because many of our recommendations were long-term in nature, we did not yet expect their implementation to be complete. Progress is satisfactory, except in several specific areas.

28.3 Transport Canada has made satisfactory progress in the areas of risk analysis and audit and inspection. However, it has still not conducted or planned any formal review of the quality of Civil Aviation Daily Occurrence Reporting System (CADORS) data or any other safety performance data regularly supplied to it by NAV CANADA. The Department also has not yet established a formal process to reconcile the data it receives from NAV CANADA with the data from the Transportation Safety Board's incident-reporting system to ensure completeness.

28.4 The National Energy Board has made a good effort to meet its commitments and implement the recommendations. Progress has been slower than anticipated in some areas but is on track for full implementation in the near future. The Board has taken the tasks seriously and assigned senior staff to ensure successful completion.

Treasury Board Secretariat

The Government's Annual Contracting Activity Report — 1998

Chapter 29 – Main Points

29.1 This chapter examines the Treasury Board Secretariat's Annual Contracting Activity Report for the calendar year 1998. The Report provides Canadians with an annual statistical summary of the number and value of contracts let pursuant to the Government Contracts Regulations (GCR) and the government's contracting policy. The value of the reported contracts in 1998 accounted for $13.4 billion (including NATO Flying Training in Canada Program of $2.99 billion) or more than one third of the $35.7 billion cost of running the government.

29.2 The systems for gathering data for the Report capture most of what is required and have the potential to provide the base for a good and useful document. However, our audit found significant deficiencies in the Report with respect to validity, reliability, transparency and relevance. (We define these terms later.)

29.3 Specifically, the deficiencies that we noted in the 1998 Report include the following:

- **Validity.** Transactions relating to contract amendments, standing offers and credit card payments are included with information on primary contracting activities. The information on these transactions should be segregated in the Report.
- **Reliability.** The audit found that information on the number and dollar value of contracts was incomplete. For example, the Report did not include at least $320 million worth of contracts that should have been reported. We also found that information on the classification of contracts was unreliable.
- **Transparency.** The 1998 Report does not provide enough explanatory information or links to it to enable the unfamiliar reader to understand how the Report was prepared and the meaning of key terms used in presenting the data.
- **Relevance.** As was the case for previous reports, the 1998 Report was not published until more than a year after the end of the reporting period, thereby making its relevance questionable. In addition, it does not contain enough information in particular areas to meet the needs of the public and parliamentarians. These needs have been identified by parliamentary committees.

29.4 The available data do not permit us to quantify the effect of several of these deficiencies on the Report; nor do the data permit us to assess the interaction among them. Accordingly, we cannot assess the extent to which these deficiencies affect the overall fairness of presentation of the Report.

Background and other observations

29.5 The need for fairly presented and relevant statistical information on the government's contracting activities has been a long-standing concern of the Office of the Auditor General. We first raised the issue in 1982 and more recently in reports in 1991 and 1997. Concerns about the lack of appropriate information on contracting were major elements of the 1995 and 1997 Reports of the Standing Committee of the House of Commons on Government Operations. In 1999, the Public Accounts Committee also expressed concerns about the information and recommended that future reports be audited.

29.6 We recommend that the Treasury Board Secretariat improve the usefulness of the Annual Contracting Activity Report by segregating information on amendments, standing offers and credit card payments. We also recommend that the Report provide the reasons for directing a contract to a particular supplier. The Treasury Board Secretariat should also develop quality assurance systems for the data used to develop the Report. In addition, the Secretariat needs to direct attention to resolving the conceptual and presentation issues that we have identified. Major improvements can be achieved with some additional effort and attention to statistical reporting by the procurement community.

As noted in "Subsequent Event" at the end of the chapter (paragraph 29.76), the Treasury Board Secretariat has already taken steps to address a number of our concerns. The Secretariat's responses to our recommendations indicate that it is actively addressing some and giving what it believes to be appropriate consideration to the rest.

Fisheries and Oceans

The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

Chapter 30 – Main Points

30.1 Fisheries and Oceans is managing the salmon farming industry on the basis that it poses an overall low risk to wild salmon and habitat. However, the Department is not fully meeting its legislative obligations under the *Fisheries Act* to protect wild Pacific salmon stocks and habitat from the effects of salmon farming. We found that the Department:

- is not fully carrying out its current regulatory responsibilities to enforce the *Fisheries Act* with respect to salmon farming operations;
- is engaged in research and is working with the Province of British Columbia (B.C.) to develop a regulatory framework for salmon farming, but there are shortfalls in research and monitoring to assess the effects of salmon farming operations; and
- has not put in place a formal plan for managing risks and for assessing the potential cumulative environmental effects of proposals for new sites, should the decision be made to expand the industry.

30.2 There is an urgent need for the Department to address these shortcomings in consultations with the Province if their goal of ensuring the co-existence of sustainable salmon fishing with the farming industry is to be achieved. The Department has recently obtained additional funds, which it plans to use to respond to industry and public concerns. Some projects include habitat management, further study on the environmental effects of aquaculture operations on fish habitat, and the effects of farmed and wild stock interaction. The Department has also notified the Province of B.C. and the salmon farming industry that it intends to begin assessing all fish farm operations to ensure that they are in compliance with the *Fisheries Act*.

Background and other observations

30.3 This is our third audit since 1997 of the Department's Pacific salmon management programs. In previous chapters we reported on habitat protection and management of the salmon fisheries. We found that loss of salmon habitat continued and that some wild salmon stocks were declining. Salmon farming has the potential to create additional stress on wild salmon stocks over time, especially if the industry expands. We found that the Department has not developed a plan to evaluate and manage the risks in the long term.

30.4 Reaching conclusions on the effects of salmon farming is difficult because there have been few scientific studies that apply directly to the B.C. situation. Recent scientific evidence of escaped Atlantic salmon reproducing in B.C. streams, and the potential for expansion of the industry, are raising new questions regarding effects on wild salmon stocks, including the cumulative effects on the environment and fisheries resources.

30.5 Atlantic salmon are raised initially in freshwater hatcheries, and at the juvenile stage they are transferred to open net pens in marine coastal waters in B.C. to complete their growth. They are harvested as adult salmon. It is while they are being reared in open net pens that possible interactions with wild salmon and their habitat can occur. Furthermore, open net pens are vulnerable to damage, which can result in escapes of farmed salmon.

The Department concurs with the contents of the chapter.

Fisheries and Oceans

Fleet Management

Chapter 31 – Main Points

31.1 In our opinion, Fisheries and Oceans is not managing its fleet in a cost-effective manner. There is a wide variation in practices and procedures employed by the five regions where the fleet operations are controlled. With each region having its own operating practices, procedures and support, the Department is missing opportunities for greater flexibility in sharing resources and for better productivity in providing the fleet service.

31.2 We observed the following problems in the key management practices that are important to a cost-effective fleet activity:

- The Department has not established clear, concrete, realistic and agreed-upon performance expectations for the fleet.
- The funding horizon has been only one year, even though the fleet is a capital-intensive activity with high fixed costs.
- There is a lack of service accords clearly establishing the performance and funding arrangements between the Department's programs and the fleet.
- Internal budgetary processes do not support accountability for the fleet activity.
- Information systems are not integrated and do not provide managers with reliable, timely information on performance and cost.
- The method of allocating costs to programs discourages vessel use.
- The fleet does not employ a life cycle approach to managing its vessels.
- The fleet is not adequately managing its single largest operating expenditure, its human resources.
- Shore-based support is too large, given the current size of the fleet.
- There are weaknesses in stewardship reporting to Parliament.

31.3 As the Department addresses these issues in an order of priority (they cannot all be addressed at once), it also needs to consider a longer-term strategy to renew its aging fleet. Such a strategy would need to take into consideration the changing nature of program requirements, the impact of technological change and the potential for alternative means of acquiring the services needed.

Background and other observations

31.4 At 31 March 2000, the fleet consisted of 144 vessels (122 were operational for some period during 1999–2000), including vessels as small as an 8-metre multi-tasked utility vessel to a 111-metre heavy gulf icebreaker. The fleet plays a key role in providing services such as aids to navigation, icebreaking, the marine component of search and rescue, and marine pollution prevention and response. It also supports the Department in the conduct of fisheries science and enforcement, hydrography, oceanography and other marine sciences.

31.5 In 1999–2000, Fisheries and Oceans spent approximately $229 million for operations, maintenance and capital replacement of the fleet. In addition, an estimated $52 million was spent on shore-based support.

31.6 The fleet's human resources are its single largest operating expense. At 1 April 2000, there were 756 officers and 1,308 crew assigned to vessels, although the number of people varies during the year depending on seasonal requirements. In addition, we estimate conservatively that there are about 447 full-time-equivalent shore-based positions that provide direct support to the fleet and about 55 positions associated with the Canadian Coast Guard College that provide training support directly to the fleet.

31.7 Our audit focussed on the 47 large vessels that operated for some period during 1999–2000, vessels in lay-up status, and the sea- and shore-based people directly involved in managing and operating the fleet. The large vessels annually incur between 70 and 80 percent of the operating costs of the fleet.

31.8 Since 1994, the fleet has had to deal with significant fiscal restraint, the merger of the former Transport Canada Coast Guard fleet with the science and fisheries enforcement fleets of Fisheries and Oceans (1995), and further fiscal restraint associated with the merger (1996 to the present). We had expected to find some management issues, given the amount of change the fleet has undergone; however, we are concerned about the number and seriousness of the issues we found. We believe that the resolution of these issues requires management's prompt action.

31.9 While the issues raised in this chapter are considerable and represent a challenge to management, the Department deserves credit for several initiatives that are important to the delivery of the fleet activity. Most notable is the ongoing implementation of the International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM Code). Also, during 1999–2000, program and fleet managers identified the existing vessels that could be afforded, within available funding, while providing the best possible service. This exercise did not address the problems we identified above; however, it could bring some stability to the environment in which the fleet operates.

The Department's overall response to this chapter follows paragraph 31.139. Fisheries and Oceans accepts our findings and indicates that a study is under way to develop strategic options for fleet management. Following completion of the study, the Department intends to develop an action plan addressing seven specific areas that encompass the issues we have identified.

National Defence

Defence Support Productivity: A Progress Report

Chapter 32 – Main Points

32.1 National Defence's efforts since 1994 to transform itself to a more entrepreneurial organization and to maintain military capabilities in the face of declining financial and human resources have yet to be completed. Efforts to reform the services we examined in 1996 that provide support to the ships, land force brigades and air squadrons of the Canadian Forces remain a work-in-progress.

32.2 In 1996 we reported that the productivity of the base/wing support functions of vehicle maintenance, supply and transportation had either fallen or was less than that of similar service providers. This year we found that, because of massive organizational and process changes, we could no longer measure productivity; nor could the base/wing managers tell us if they were more or less productive than they were in 1996.

32.3 Although the number of training days delivered per Canadian Forces school employee has declined since 1996, 14 schools may be unable to deliver the quantity of individual training required in the future.

32.4 National Defence's efforts to improve aircraft maintenance productivity have been relatively successful, although the introduction of AF 9000 Plus, a quality management system, has stalled.

32.5 The Department has achieved limited success in its efforts to shift to a more businesslike environment in those renewal efforts we examined.

- Business plans, although helpful in rationing declining resources, still lack performance measures. Managers continue to express concerns about the adequacy of cost information. As a result, it is difficult for managers to determine whether productivity is improving or declining.
- The devolution of operating budgets to the lowest level of the organization has led to confusion over roles and responsibilities. Managers do not have the knowledge and experience to carry out their new responsibilities. The Department has not provided adequate training on new information systems, and the complexity of the systems has complicated rather than simplified re-engineering and devolution initiatives. The Department has undertaken a number of initiatives to address these issues.
- The Department's efforts to transform its organizational culture continue; however, culture change priorities have yet to be identified.
- As might be expected, the two major alternative service delivery programs most closely associated with defence support productivity are meeting strong internal resistance from potentially affected employees. The Department expects to realize savings beginning in 2004.

32.6 We found that the lack of measurable progress in improving support productivity can be attributed to a number of factors, including:

- the relatively low priority of improving defence support productivity among the Department's competing programs;
- the need to cope with continuing personnel and budget reductions throughout the renewal period; and
- the lack of a strategic plan to guide the Department's reform efforts through its five-year renewal period (1994–1999).

Background and other observations

32.7 The operational ships, land force brigades and air squadrons are sustained by a support system that provides such things as personnel administration, food, fuel, equipment, maintenance and training. In a force of about 60,000, approximately 36,000 are dedicated to operations and training at any given time, with the remainder focussed mainly on continuing support. In dollar terms, support services consume approximately 45 percent of the $11 billion budget of National Defence. In this audit, we reviewed the progress made by the Department in improving productivity in support functions that we audited in 1996. These functions represent only part of the resources consumed by support services. Measuring and improving defence support productivity is important to ensure that only minimal resources are consumed by support functions so that maximum resources can be dedicated to operations.

32.8 In 1994, in response to the government's 1994 Defence White Paper, National Defence embarked on a five-year renewal program to devote maximum resources to the Canadian Force's combat capability by decreasing the cost of support activities. Between 1994 and 1999, the Canadian Forces were reduced from 76,000 to about 60,000 members. The civilian work force was reduced from 32,000 to about 20,000 employees. During this period of rapid personnel reductions, National Defence completed a number of significant overseas and domestic deployments.

The National Defence response is included in this chapter (paragraph 32.126). The Department stresses that it has faced many challenges and competing priorities that have reduced its ability to improve support productivity. Officials told us that business planning has resulted in greater awareness of the need for efficiency and that their Strategy for 2020 document will provide an overall framework for change.

National Defence acknowledges that the development of activity-based costing information has been slow, but says that its decision-making process has not suffered. The Department is still working on a performance measurement framework.

Follow-up of Recommendations in Previous Reports

Chapter 33 – Main Points

33.1 This year's reports indicate that some entities have been more successful than others in implementing corrective action. We noted satisfactory progress in some areas by several entities, but we also noted numerous areas where progress is disappointing. Some entities have made a good start in implementing changes, but have slowed down in completing them. Few entities get a "well done" for speedy implementation. We urge all departments and agencies to make a greater effort to accelerate their implementation plans.

33.2 Our 1998 audit of selected grant and contribution programs of **Industry Canada** and the **Department of Canadian Heritage** identified weak management practices. Our follow-up found that Industry Canada is making reasonable progress in addressing our recommendations. However, we uncovered a new issue — a $20 million payment in advance of need resulting in as much as $5 million of interest costs to the government. We found that the Department of Canadian Heritage has not made sufficient improvement in the management of grants and contributions under its Multiculturalism Program. Program objectives remain unclear and there are still serious problems with due diligence. We plan to report again next year on the Department's progress in remedying these problems.

33.3 Our follow-up of three previous chapters on Atlantic fisheries management found that **Fisheries and Oceans** is moving forward with a plan for the development and approval of a sustainable fisheries framework and the development of a new approach to fisheries management for the Atlantic fisheries. While the plan appears to address our key recommendations, the Department still needs to finalize the policy and develop detailed processes, procedures and legislation to support the new approach to fisheries management. Only then can we conclude that our recommendations have been fully addressed.

33.4 Since our report on **Population Aging and Information for Parliament**, the budgetary process has become more transparent and forward looking. The adjustment of budget forecasts for "prudence" is now shown explicitly, rather than embedded in the revenue and expenditure projections. In addition, the fiscal outlook has been extended from two years to five years. This, however, still falls short of what is needed to show the impact of the impending demographic shift one to three decades ahead.

33.5 The departments and agencies responsible for the planning and construction of the **Canadian Security Intelligence Service headquarters** and the **federal laboratories for Human and Animal Health** have taken action on most of the original audit recommendations and observations. However, the laboratory facilities in Winnipeg remain significantly underutilized. The Treasury Board Secretariat has only recently initiated a review of its monitoring role and methodology to ensure an appropriate level of oversight over major Crown projects. Public Works and Government Services Canada has not resolved certain contracting issues such as the definition of errors and omissions in contract documents and introducing meaningful incentives for reducing costs.

33.6 After our audit of the management of the Social Insurance Number (SIN), the government took steps to improve the integrity of data in the Social Insurance Register. **Human Resources Development Canada** has increased the number of investigations of SIN fraud and abuse and actions to address other issues identified by our audit are under way. However, a comprehensive study of the impact and extent of use of the SIN is still needed to fully understand the practical, economic and political implications of its use.

33.7 The government has made progress in its efforts to implement its **Financial Information Strategy** but considerable work is needed to ensure that the financial systems and accrual accounting policies will be in place by the April 2001 deadline. The longer-term integration of better financial information into day-to-day management decision making remains a challenge.

33.8 In addition to those mentioned above, this chapter includes follow-up reports on the **Canadian Customs and Revenue Agency**, the **Department of Finance**, **Human Resources Development Canada** and **Veterans Affairs Canada**. Other follow-up work is reported in different chapters throughout our reports.

Other Audit Observations

Chapter 34 – Main Points

34.1 The *Auditor General Act* requires the Auditor General to include in his Report matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

34.2 This chapter fulfils a special role in the Report. Our other chapters normally report on value-for-money audits or on audits and studies that relate to operations of the government as a whole. "Other Audit Observations" reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

34.3 This chapter covers the following:

- Atomic Energy of Canada Limited records its decommissioning and site remediation liabilities;
- managing suspected abuse and fraud in the Employment Insurance program;
- lack of clarity on basis used in setting Employment Insurance premium rates; and
- federal investment in Big Science: the Sudbury Neutrino Observatory.

34.4 Although each audit observation reports matters of significance, they should not be used as a basis for drawing conclusions about matters not examined.

Sustainable Development Strategy for the Office of the Auditor General

Chapter 35 – Summary

35.1 In our second sustainable development strategy, we commit to helping the federal government continually improve its management of environmental and sustainable development issues and to ensuring that our own operations are managed in an environmentally responsible manner.

35.2 We have made good progress in implementing our first strategy, but there are several areas that require improvement. Our biggest challenge is to further integrate environmental and sustainable development issues into our audit work. We need to better document changes made to our action plan, and we must also update and complete the implementation of our environmental and sustainable development training plan.

35.3 Our experience with the first strategy has allowed us to simplify our approach to managing sustainable development issues. We have reduced the number of goals and objectives and the indicators of performance that we use to measure our progress; and we have linked our actions to our planned results. From our experience with the first strategy, we learned that we needed to balance our environmental aspirations with other factors, such as increasing the quality of working life.

35.4 During the past three years our Office, including the Commissioner of the Environment and Sustainable Development, has reported our findings to Parliament on subjects that include the government's management of smog, toxic substances, climate change, hazardous wastes, biodiversity and sustainable fisheries. We have reviewed the implementation of the first round of departmental strategies. Finally, we have assessed the performance of departments and agencies and provided guidance on how they can improve their management of environmental and sustainable development issues and reduce the environmental impacts of their own operations.

35.5 In the next three years, we will continue to perform audits of environmental issues and to follow up on our previous audits. In 2001 we plan to report on an audit of the way the federal government manages its responsibilities for selected sustainable development issues that affect the Great Lakes and St. Lawrence River basin.

35.6 Following amendments to the *Auditor General Act* in 1995 that formally incorporated environmental and sustainable development issues into our mandate, 24 federal departments and agencies tabled their first sustainable development strategies in the House of Commons in December 1997. Another four departments and agencies, including the Office of the Auditor General, voluntarily submitted strategies. The *Auditor General Act* requires that the strategies be updated every three years, and the second round of strategies was due to be tabled by December 2000 if Parliament were sitting.

35.7 The framework for our strategy focusses on three major areas: our audit work, our day-to-day operations, and our human resources. We believe it is in our audits and studies of federal organizations that we have the greatest impact.

35.8 Our sustainable development strategy aims to promote sustainable development among parliamentarians, federal organizations and Canadians in general. More specifically, our strategy tells parliamentarians how we integrate environmental and sustainable development considerations into our business as a legislative audit office, and how we measure the success of our efforts.

35.9 In the past three years, our Office has brought many environmental and sustainable development issues to the attention of Parliament and federal organizations through our financial audits, special examinations and value-for-money audits, including our reviews of the sustainable development strategies. We have provided guidance through studies and other publications, including *Moving Up the Learning Curve,* a 1999 report by the Commissioner of the Environment and Sustainable Development. That report set out what the Commissioner expected to see in the second round of sustainable development strategies.

35.10 This chapter sets out our own second strategy. It includes:

- a description of our Office — our mandate, the work we do and the impact that we aspire to achieve;
- a summary of our performance and the lessons learned from our first strategy; and
- our objectives, indicators of performance and our planned results for the next three years.

Report of the
Auditor General of Canada to the House of Commons – 2000
Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6

5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry

6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter

15 Health Canada – First Nations Health: Follow-up

Other Observations
16 Follow-up of Recommendations in Previous Reports
17 Other Audit Observations

Volume 3 – December 2000

Chapter

Matters of Special Importance – 2000
Foreword and Main Points

18 Governance of Crown Corporations

19 Reporting Performance to Parliament: Progress Too Slow

20 Managing Departments for Results and Managing Horizontal Issues for Results

21 Post-Secondary Recruitment Program of the Federal Public Service

22 Development of the Universal Classification Standard: A Follow-up

23 Information Technology: Acquisition of Goods and Services

Protecting Health and Safety
24 Federal Health and Safety Regulatory Programs
25 Canadian Food Inspection Agency – Food Inspection Programs
26 Health Canada – Regulatory Regime of Biologics
27 Canadian Nuclear Safety Commission – Power Reactor Regulation
28 Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

29 Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

30 Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

31 Fisheries and Oceans – Fleet Management

32 National Defence – Defence Support Productivity: A Progress Report

Other Observations and Appendices
33 Follow-up of Recommendations in Previous Reports
34 Other Audit Observations

35 Sustainable Development Strategy for the Office of the Auditor General

Rapport du

vérificateur général du Canada

à la Chambre des communes

Questions d'une importance particulière – 2000
Avant-propos et Points saillants

Décembre 2000

Le Rapport de décembre 2000 comporte 18 chapitres, dont le chapitre « Questions d'une importance particulière », ainsi qu'un Avant-propos et les Points saillants des chapitres des Rapports d'avril ainsi que d'octobre et de décembre 2000. Afin de mieux répondre aux besoins de nos clients, il est disponible sur divers supports. Pour obtenir d'autres documents ou les obtenir sur un autre support, voir la Table des matières et le bon de commande à la fin du présent document.

Dans le présent rapport, le genre masculin est utilisé sans aucune discrimination et uniquement dans le but d'alléger le texte.

© Ministre des Travaux publics et des Services gouvernementaux Canada 2000
N° de catalogue FA1-2000/3-0
ISBN 0-662-65340-8

AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA

Président de la Chambre des communes

J'ai l'honneur de vous transmettre ci-joint mon rapport annuel de 2000 à la Chambre des communes, lequel doit être déposé à la Chambre en conformité avec les dispositions du paragraphe 7(3) de la *Loi sur le vérificateur général.*

Le vérificateur général du Canada,

L. Denis Desautels

L. Denis Desautels, FCA

OTTAWA, le 20 décembre 2000

Avant-propos

Rapport du vérificateur général du Canada à la Chambre des communes — Décembre 2000

Avant-propos

Je suis heureux de présenter le volume de décembre de mon rapport de 2000. Cet avant-propos est suivi de « Questions d'une importance particulière – 2000 » et des Points saillants qui sont tirés de tous les chapitres de cette année. Ce volume contient en outre 18 chapitres reliés séparément.

18. La régie des sociétés d'État
19. L'information sur le rendement communiquée au Parlement : les progrès sont trop lents
20. La gestion ministérielle axée sur les résultats et la gestion des questions horizontales axée sur les résultats
21. Le Programme de recrutement postsecondaire de la fonction publique fédérale
22. L'élaboration de la Norme générale de classification : suivi
23. Les technologies de l'information : l'acquisition de biens et de services
24. Les programmes fédéraux de réglementation relatifs à la santé et à la sécurité
25. Agence canadienne d'inspection des aliments – Les programmes d'inspection des aliments
26. Santé Canada – Le régime de réglementation des produits biologiques
27. Commission canadienne de sûreté nucléaire – La réglementation des centrales nucléaires
28. Suivi de recommandations antérieures sur des programmes de réglementation relatifs à la santé et à la sécurité
29. Secrétariat du Conseil du Trésor – Rapport annuel sur les marchés du gouvernement – 1998
30. Pêches et Océans – Les effets de la salmoniculture en Colombie-Britannique sur la gestion des stocks de saumon sauvage
31. Pêches et Océans – La gestion de la flotte
32. Défense nationale – La productivité des services de soutien de la Défense : un rapport d'étape
33. Suivi des recommandations formulées dans des rapports antérieurs
34. Autres observations de vérification
35. La stratégie de développement durable du Bureau du vérificateur général

Notre bureau a publié le premier volume du Rapport de 2000 en avril (9 chapitres) et le second (8 chapitres) en octobre.

De plus, notre bureau a fourni cette année :

- un rapport du vérificateur et des observations sur les états financiers du gouvernement du Canada;
- un rapport du vérificateur et des observations sur l'état des opérations du Compte de service et de réduction de la dette;
- quelque 90 rapports du vérificateur et des observations sur les états financiers des sociétés d'État, des établissements publics et d'autres entités fédéraux, des organisations et des gouvernements territoriaux, et d'organisations internationales.

En 1999-2000, notre bureau a terminé les examens spéciaux des sociétés d'État suivantes : Conseil canadien des normes, Musée national des sciences et de la technologie, Corporation de développement des investissements du Canada, Société pour l'expansion des exportations, Marine Atlantique S.C.C., Société du Vieux-Port de Montréal Inc., Société d'assurance-dépôts du Canada, Société d'expansion du Cap-Breton, Musée des beaux-arts du Canada, Office de commercialisation du poisson d'eau douce, Queens Quay West Land Corporation et la Monnaie royale canadienne. De plus, au cours de la période ultérieure allant d'avril à octobre 2000, notre bureau a terminé les examens spéciaux d'autres sociétés : Administration de pilotage des Laurentides, Commission canadienne du lait, Société Radio-Canada et Société immobilière du Canada Limitée.

Aux termes de l'article 11 de la *Loi sur le vérificateur général*, je peux réaliser des missions à la demande du gouverneur en conseil. En 2000, nous avons reçu les demandes suivantes en vertu de cet article :

- Faire enquête au sujet du Yukon Workers' Compensation Health and Safety Board;
- Examiner les états financiers annuels et les opérations financières de l'UNESCO et en faire rapport, notamment formuler des observations sur l'efficience des mécanismes financiers, du système comptable, du contrôle financier interne et, en général, de l'administration et de la gestion de l'organisation, pour trois exercices consécutifs à compter de celui de 2000-2001;
- Vérifier chaque année les états financiers annuels de la Commission canadienne de sûreté nucléaire;
- Faire enquête et dresser un rapport sur le rapprochement visé par l'article 23 de l'Accord de perception fiscale (taxe de ventes) entre le gouvernement du Canada et la bande indienne de Kamloops.

Questions d'une importance particulière – 2000

Table des matières

Page

Points saillants 4

Améliorer la gestion des dépenses gouvernementales 7

L'intendance des fonds publics mérite une attention accrue 7

Quatre principes fondamentaux régissant les dépenses publiques 9

Toutes les dépenses gouvernementales devraient recevoir la sanction du Parlement 11

Les dépenses gouvernementales devraient être gérées avec probité et efficience 13

La valeur des dépenses gouvernementales devrait être mesurée en fonction des résultats obtenus 15

Les programmes gouvernementaux de dépenses devraient toujours avoir leur raison d'être 17

Les récentes prises de position du gouvernement sur les pratiques de dépenses sont louables, mais l'essentiel est d'y donner suite 18

Une solide assise au chapitre des valeurs et de l'éthique peut favoriser une gestion prudente des dépenses 19

Il faut utiliser les incitatifs à bon escient 21

Conclusion 23

Pièces

1 Quelques règles fondamentales pour la fonction publique 10

2 Éléments d'un cadre d'éthique 19

Annexe : Autres questions

Les réformes de la gestion des ressources humaines n'ont pas répondu aux attentes 25

Les capacités de gestion financière des ministères sont insuffisantes par rapport aux besoins 25

L'information communiquée sur le rendement s'est améliorée, mais les progrès sont lents 26

Le système d'éducation des enfants indiens vivant dans les réserves ne réussit pas à répondre à leurs besoins 26

Les programmes fédéraux de réglementation relatifs à la santé et à la sécurité posent des défis de taille 27

La régie des sociétés d'État pourrait être meilleure 27

Possibilités d'économies 28

Questions d'une importance particulière – 2000

Points saillants

Chaque année, dans ce chapitre, je mets en lumière des questions que je considère particulièrement importantes. Dans ce dixième et dernier chapitre que je consacre à ces questions, je me concentre sur la façon d'améliorer la gestion des dépenses publiques. Je discute de quatre principes fondamentaux qui devraient permettre de prendre des décisions éclairées en ce qui a trait aux dépenses et d'adopter de bonnes pratiques à cet égard dans un régime parlementaire comme le nôtre :

- **Toutes les dépenses du gouvernement devraient recevoir la sanction du Parlement.** Le contrôle des finances exercé par le Parlement a été décrit comme étant à la base d'un gouvernement responsable. Il est fondé sur deux préceptes essentiels de la démocratie parlementaire — notamment que le gouvernement ne doit pas prélever des sommes d'argent sans l'approbation du Parlement et qu'il ne doit les dépenser qu'aux fins autorisées par le Parlement. La conformité aux autorisations parlementaires est une exigence minimale qui doit être respectée pour tout débours de fonds publics.

- **Les dépenses gouvernementales devraient être gérées avec probité et efficience.** Ce principe reconnaît le fait que les fonds publics sont de l'argent conservé en fiducie au profit de tous les Canadiens. Par conséquent, le gouvernement a l'obligation de veiller à ce que cet argent soit géré avec prudence dans l'intérêt public. Cela veut dire aussi que le gouvernement doit chercher à maximiser la valeur obtenue en contrepartie des dollars qu'il dépense.

- **La valeur des dépenses gouvernementales devrait être mesurée en fonction des résultats obtenus.** Historiquement, on a eu tendance à justifier les programmes publics davantage en fonction des ressources utilisées qu'en fonction des résultats obtenus. Mais les gouvernements ne créent pas des programmes pour le plaisir de dépenser. Ils les créent pour assurer des services qui visent à améliorer la vie des Canadiens. C'est la raison pour laquelle ils doivent gérer en fonction des résultats.

- **Les programmes gouvernementaux de dépenses devraient toujours avoir leur raison d'être.** Les ressources dont dispose le gouvernement évoluent au fil du temps, tout comme les besoins et les préférences du public. Pour s'assurer que les dépenses publiques servent aux fins qui sont jugées les plus utiles, le gouvernement doit évaluer régulièrement ses programmes et déterminer s'ils sont toujours pertinents, efficaces et à la mesure de nos moyens.

Ces principes peuvent sembler évidents, mais ils sont violés trop souvent. Je montre donc également comment un cadre solide de valeurs et d'éthique et des incitatifs structurés adéquatement peuvent favoriser le respect de ces principes de dépenses publiques.

Dans l'annexe au chapitre, je traite d'autres questions qui présentent toujours de l'intérêt :

- les réformes de la gestion des ressources humaines dans la fonction publique;
- les capacités de gestion financière des ministères;
- les progrès réalisés dans la communication par les ministères de l'information sur le rendement;
- les faiblesses du système d'éducation des enfants indiens qui vivent dans les réserves;
- les défis auxquels sont confrontés les programmes fédéraux de réglementation relatifs à la santé et à la sécurité;
- les lacunes dans la régie des sociétés d'État;
- les possibilités d'économies cernées par nos vérifications.

Contexte

Malgré le repli et les compressions de la dernière décennie, les dépenses du gouvernement fédéral demeurent à des sommets historiques — soit environ 175 milliards de dollars par année. Il est clair que la façon dont cet argent est dépensé intéresse grandement les contribuables, qui en assument les frais, et le public en général, au nom duquel ces dépenses sont effectuées.

Au cours des dix années de mon mandat en tant que vérificateur général, j'ai été le témoin d'améliorations importantes dans la gestion des dépenses publiques, apportées bien souvent dans le contexte de compressions budgétaires. Mais les progrès ont été lents et il y a eu aussi des reculs. L'augmentation subite des dépenses en fin d'exercice, les engagements de dépenses sans planification ou contrôle adéquats, l'insuffisance des efforts déployés pour recouvrer les sommes dues à l'État — ces indications et d'autres de l'incapacité d'optimiser les ressources sont toujours constatées avec une fréquence alarmante dans le secteur public fédéral.

Pourquoi ces problèmes semblent-ils aussi insolubles? Pourquoi persistent-ils année après année, malgré les engagements exprès de les régler? Que peut-on faire pour combler l'écart entre les promesses et la façon dont le gouvernement gère l'argent des contribuables? Ce sont là les questions qui motivent mes propos dans le présent chapitre.

Notre vision

Nous nous sommes engagés à produire des changements positifs pour tous les Canadiens en faisant la promotion d'une administration gouvernementale responsable, honnête et productive qui reflète un engagement envers le développement durable et ce, dans l'exécution du mandat que nous a confié le Parlement.

Notre mission

Nous effectuons en toute indépendance des missions de vérification et des examens qui fournissent information, assurance et avis objectifs au Parlement. Nous visons ainsi à améliorer le contrôle parlementaire sur les deniers publics et à encourager l'emploi des meilleures méthodes de gestion dans l'administration publique.

Élaboration de la mission

Dans l'accomplissement de notre mission, nous voulons produire des résultats positifs en favorisant :

- *un compte rendu juste et honnête de l'intendance du gouvernement à l'égard des ressources financières et autres;*
- *l'efficience et la productivité au sein de la fonction publique;*
- *la rentabilité des activités du gouvernement;*
- *la perception des recettes dues à l'État.*

Par notre travail, nous voulons aussi :

- *fournir une assurance objective à l'égard des questions jugées satisfaisantes ou insatisfaisantes;*
- *assurer la conformité aux autorisations;*
- *prévenir la fraude et la malhonnêteté.*

Améliorer la gestion des dépenses gouvernementales

Chaque année, dans ce chapitre, je mets en lumière des questions que je considère particulièrement importantes. C'est le dixième et dernier chapitre que je consacre à ces questions : mon mandat de dix ans en qualité de vérificateur général se termine à la fin de mars 2001. En février, je compte présenter un rapport « récapitulatif » au Parlement qui coïncidera avec la fin de mon mandat. Ce rapport présentera ma perspective sur quelques-uns des principaux problèmes de gestion auxquels le gouvernement fédéral est confronté, le rôle de la vérification législative et son évolution au cours des dix dernières années ainsi que les efforts déployés par mon Bureau pour cerner les problèmes et obtenir une réforme des organismes centraux et de l'exécution des programmes.

Malgré des efforts honnêtes et maints engagements d'amélioration, la gestion des dépenses dans le secteur public fédéral n'est toujours pas aussi bonne qu'elle devrait et qu'elle peut l'être.

Dans ce chapitre, je veux me concentrer sur un thème qui est essentiel à notre bureau et qui me tient à coeur : comment améliorer la gestion des **dépenses** dans le secteur public. Malgré des efforts honnêtes et maints engagements d'amélioration, la gestion des dépenses dans le secteur public fédéral n'est toujours pas aussi bonne qu'elle devrait et qu'elle peut l'être. À cette fin, j'énonce certains principes fondamentaux qui devraient permettre de prendre des décisions éclairées en ce qui a trait aux dépenses et d'adopter de bonnes pratiques à cet égard dans un régime parlementaire comme le nôtre, et j'expose certaines de leurs répercussions. Je montre aussi comment un cadre solide de valeurs et d'éthique et des incitatifs structurés adéquatement peuvent favoriser le respect de ces principes de dépenses publiques.

L'intendance des fonds publics mérite une attention accrue

Malgré le repli et les compressions de la dernière décennie, les dépenses du gouvernement fédéral demeurent à des sommets historiques — soit environ 175 milliards de dollars par année. Il est clair que la façon dont cet argent est dépensé intéresse grandement les contribuables, qui en assument les frais, et le public en général, au nom duquel ces dépenses sont effectuées.

Plus tôt cette année, la révélation de lacunes importantes dans la gestion des subventions et des contributions à Développement des ressources humaines Canada (DRHC) a eu un grand retentissement. Le public a réagi fortement car les sommes en jeu étaient importantes. De plus, je crois qu'après des années d'augmentation d'impôts et de diminution ou de stagnation des budgets des ménages, le public est encore plus sensible qu'avant aux pratiques de dépenses laxistes du gouvernement. Cette question a fait l'objet d'une grande couverture dans les médias et de vifs débats à la Chambre des communes. Mais les lacunes comme celles de DRHC — des critères d'admissibilité appliqués de façon vague et incohérente, des transgressions des autorisations, l'absence d'un cadre de contrôle et de reddition de comptes approprié — ne sont pas le seul apanage d'un programme ou d'un ministère. Nous avons observé des lacunes semblables (bien que d'une ampleur moindre) lors de notre vérification du programme Travaux d'infrastructure Canada en 1996, de notre vérification de la Stratégie du poisson de fond de l'Atlantique en 1997 et de notre vérification des programmes de subventions et de contributions à Industrie Canada et au ministère du Patrimoine canadien en 1998. Je pourrais citer d'autres exemples relevés au fil des ans, mais ceux-ci suffisent pour étayer mon point de vue, à savoir que les dépenses gouvernementales ne sont pas toujours effectuées avec le soin et la prudence que les contribuables ont le droit d'exiger.

Les dépenses gouvernementales ne sont pas toujours effectuées avec le soin et la prudence que les contribuables ont le droit d'exiger.

Les Canadiens sont à juste titre indignés par ces révélations. Ils estiment peut-être, comme le juge Oliver Wendell Holmes, que les impôts sont le prix à payer pour la civilisation et ne rechignent pas devant le lourd tribut qu'ils paient pour financer les services publics nécessaires. Mais ils s'indignent et se fâchent lorsqu'ils voient que leurs impôts sont gaspillés ou ne sont pas utilisés avec le soin et la prudence dont eux-mêmes ont dû faire preuve pour boucler leur budget familial. Franchement, je partage leur frustration. Après que des cas de gaspillage et de mauvaise gestion ont été découverts et réglés, il est décourageant de voir réapparaître, comme l'hydre légendaire, des incidents semblables.

Au cours de mes dix années en tant que vérificateur général, j'ai été le témoin d'améliorations importantes de la gestion des dépenses publiques, apportées souvent dans le contexte de compressions budgétaires. Mais les progrès ont été lents et il y a eu aussi des reculs. L'augmentation subite des dépenses en fin d'exercice, les engagements de dépenses sans planification ou contrôle adéquats, l'insuffisance des efforts déployés pour recouvrer les sommes dues à l'État — ces indications et d'autres de l'incapacité d'optimiser les ressources sont toujours constatées avec une fréquence alarmante dans le secteur public fédéral.

Pourquoi ces problèmes semblent-ils aussi insolubles? Pourquoi persistent-ils année après année, malgré des engagements exprès de les régler? Que peut-on faire pour combler l'écart entre les promesses et la façon dont le gouvernement gère l'argent des contribuables?

S'il était facile de trouver des réponses à ces questions, nous n'aurions pas à y revenir aussi souvent. Mais après avoir scruté à la loupe les dépenses du gouvernement pendant dix ans, je crois qu'il est possible de faire mieux et qu'il faut prendre la résolution de le faire. La principale partie du chapitre porte sur la façon d'y parvenir. La section qui suit présente un certain nombre de principes qui doivent guider les décisions de dépenses au gouvernement. Dans les parties suivantes, j'expose des moyens de renforcer ces principes grâce à une structure appropriée d'incitatifs et de règles d'éthique. Comme par les années précédentes, les questions qui ne sont pas directement liées au thème du chapitre (veiller à ce que les dépenses soient effectuées avec prudence dans le secteur public), mais que je considère importantes, sont présentées dans une annexe au chapitre.

Quatre principes fondamentaux régissant les dépenses publiques

Au cours de la dernière décennie, l'administration publique fédérale au Canada a subi d'énormes changements. Comme dans de nombreux autres pays du monde industrialisé, l'administration fédérale s'est éloignée considérablement des contrôles détaillés traditionnels exercés au niveau central et des processus pour accorder une plus grande autonomie aux ministères et mettre l'accent sur les résultats. L'adoption de la gestion axée sur les résultats a été motivée par le désir de tirer parti de l'esprit d'entreprise et du jugement des fonctionnaires et de les habiliter à améliorer le rendement. En contrepartie, cependant, l'affaiblissement des contrôles traditionnels peut accroître le risque d'erreur, de mauvais jugement ou d'abus.

Revenir aux anciens systèmes fondés sur les règles ne saurait répondre à ce dilemme. À l'ère de l'information, les stratégies de commandement et de contrôle du sommet vers la base ne fonctionnent pas. Ont-elles déjà vraiment fonctionné? On peut réduire au minimum les risques que pose l'habilitation en appliquant certains principes essentiels pour orienter les mesures et

On peut réduire au minimum les risques que pose l'habilitation en appliquant certains principes essentiels pour orienter les mesures et limiter le pouvoir discrétionnaire.

limiter le pouvoir discrétionnaire dans le nouveau contexte décentralisé du secteur public.

Dans mon rapport de 1992, nous insistions sur la nécessité d'accompagner la délégation des pouvoirs dans le secteur public de mesures de protection adéquates. En établissant un parallèle avec des entreprises du secteur privé, nous proposions d'instituer un ensemble de règles fondamentales pour encadrer la prise de décisions par les fonctionnaires. Un ensemble clair de règles de base permettant d'exercer un pouvoir discrétionnaire, comme nous le préconisions, peut aider à minimiser les risques indus, tout en encourageant l'innovation en donnant plus de certitude aux employés quant à ce qu'ils peuvent faire.

Les règles proposées dans mon rapport de 1992 figurent à la pièce 1. La liste n'est pas complète; on pourrait y ajouter d'autres exemples. Pour fonctionner, les règles doivent être bien comprises. Elles doivent donc être codifiées et communiquées dans toute la fonction publique. Je crois que cela aiderait à réduire au minimum les risques indus des activités gouvernementales.

Pièce 1 – Quelques règles fondamentales pour la fonction publique

- Ne rien faire d'illégal. Respecter l'esprit et la lettre de la loi et des règlements.
- Agir dans le cadre des pouvoirs délégués.
- Agir de manière à être politiquement neutre.
- Agir de manière impartiale, honnête et équitable.
- Ne pas gaspiller les fonds publics.
- Protéger les biens.
- Respecter les valeurs fondamentales de l'organisation.
- Rendre les normes de service visibles.
- Réaliser le potentiel de production de toutes les ressources placées sous son contrôle, particulièrement les personnes.
- Ne pas prendre de décisions qui engagent d'importantes ressources publiques sans avoir obtenu l'autorisation appropriée.
- Donner les raisons pour lesquelles les risques ont été acceptés.
- Rendre compte des responsabilités assumées et de l'atteinte du rendement convenu.
- Obtenir l'autorisation s'il faut se soustraire à une règle fondamentale.

Source : *Rapport du vérificateur général du Canada* de 1992, chapitre 4.

Ces règles, et d'autres comme elles, peuvent se traduire par quelques principes qui sont enracinés dans notre régime parlementaire et dans l'obligation fiduciaire du gouvernement envers les Canadiens à l'égard de la gestion des fonds publics. J'examine dans le présent chapitre les quatre principes suivants :

- Toutes les dépenses gouvernementales devraient recevoir la sanction du Parlement.
- Les dépenses gouvernementales devraient être gérées avec probité et efficience.
- La valeur des dépenses publiques devrait être mesurée en fonction des résultats obtenus.
- Les programmes gouvernementaux de dépenses devraient toujours avoir leur raison d'être.

Ces principes peuvent sembler évidents mais, apparemment, ils ne sont pas suffisamment bien compris pour empêcher que chacun d'entre eux soit violé, comme je l'indique ci-dessous. Je crois qu'en mettant davantage l'accent sur des principes directeurs et des règles fondamentales, on pourrait réduire l'incidence de telles violations à l'avenir.

J'aborde aussi la question des procédures et des pratiques qui découlent de ces principes. Les procédures et pratiques peuvent varier dans le temps; les principes eux-mêmes demeurent constants. Ils peuvent nous guider pour établir des processus et nous éclairer sur la conduite qu'il convient d'adopter.

Toutes les dépenses gouvernementales devraient recevoir la sanction du Parlement

Le contrôle parlementaire des finances a été décrit comme étant à la base d'un gouvernement responsable. Il est fondé sur deux préceptes essentiels de la démocratie parlementaire — notamment que le gouvernement ne doit pas prélever des sommes d'argent sans l'approbation du Parlement et qu'il ne doit les dépenser qu'aux fins autorisées par le Parlement. Ces préceptes, qui découlent de siècles de lutte entre la Couronne et les Communes en Angleterre, étaient déjà bien établis au moment de la Confédération, en 1867. Lorsque les premières provinces se sont réunies pour établir une forme de gouvernement semblable en principe à celle du Royaume-Uni, elles ont intégré ces préceptes à la *Loi de 1867 sur l'Amérique du Nord britannique*. Le principe voulant que le Parlement soit le gardien de la bourse publique fait donc partie du paysage constitutionnel du Canada depuis la création du pays.

> **Le principe voulant que le Parlement soit le gardien de la bourse publique fait donc partie du paysage constitutionnel du Canada depuis la création du pays.**

Au fil du temps, un certain nombre de pratiques ont été établies pour concrétiser ce principe. Depuis 1951, ces pratiques ont été réunies en une seule loi du Parlement, la *Loi sur la gestion des finances publiques (LGFP)*. La *Loi* rend le Conseil du Trésor responsable du contrôle général des dépenses publiques et chaque ministre, de la légalité et de la probité des dépenses effectuées par son ministère. Elle énonce aussi les conditions précises qui régissent les paiements faits sur le Trésor — le compte auquel, selon la loi, toutes les recettes gouvernementales sont créditées. Plus particulièrement, les paiements :

- sont subordonnés à la signature par le gouverneur général d'un mandat (article 28 de la *LGFP*);

- doivent se conformer à un plan approuvé par le Conseil du Trésor (article 31);
- ne doivent pas dépasser les fonds votés à cette fin par le Parlement (article 32);
- ne peuvent être effectués qu'à la demande du ministre compétent ou de la personne à qui il a donné délégation écrite selon les modalités prescrites par le Conseil du Trésor (article 33).

Lorsque des paiements doivent être effectués pour des services ou des biens reçus, l'agent responsable du ministère doit certifier, avant d'effectuer le paiement, que les conditions d'exécution ont été satisfaites. Pour les subventions et les contributions, l'agent doit certifier que le bénéficiaire a droit au paiement (article 34).

Ces dispositions de la *LGFP* établissent des exigences minimales pour les débours de fonds publics — elles sont incontournables. Pourtant, des violations de ces dispositions se produisent toujours, même si elles sont peu fréquentes. Lors de notre vérification de DRHC plus tôt cette année, nous avons trouvé des cas où des paiements avaient été effectués sans l'approbation requise ou avant que les engagements aient été respectés. La vérification a révélé que des paiements avaient été approuvés par des membres du personnel qui n'avaient pas le pouvoir de le faire et qui, souvent, n'avaient pas vérifié si les demandes de remboursement étaient étayées par l'information requise. Les dispositions de la *LGFP* visent à garantir que les dépenses gouvernementales sont conformes aux autorisations parlementaires et aux politiques énoncées par le gouvernement. Le non-respect de ces dispositions est généralement un indicateur d'autres faiblesses dans la gestion et l'exécution d'un programme.

Pour en savoir davantage, voir les publications suivantes du BVG : Développement des ressources humaines Canada —Les subventions et les contributions, chapitre 11 du Rapport de 2000; Autres observations de vérification —Parc Downsview Park inc. et Travaux publics et Services gouvernementaux Canada, chapitre 17 du Rapport de 2000; Les subventions et les contributions : certains programmes d'Industrie Canada et du ministère du Patrimoine canadien, chapitre 27 du Rapport de 1998; Santé Canada —La santé des Premières nations, chapitre 13 du Rapport de 1997; Le programme Travaux d'infrastructure Canada —Les leçons apprises, chapitre 26 du Rapport de 1996; Aperçu de la gestion des biens immobiliers fédéraux, chapitre 12 du Rapport de 1994; Le contrôle parlementaire sur l'obtention de recettes par l'imposition de droits d'utilisation, chapitre 25 du Rapport de 1993.

Les dépenses gouvernementales devraient être gérées avec probité et efficience

Ce principe reconnaît le fait que les fonds publics sont de l'argent détenu en fiducie au profit de tous les Canadiens. Par conséquent, le gouvernement a l'obligation de veiller à ce que cet argent soit géré avec prudence dans l'intérêt du public. Cela veut dire aussi que le gouvernement doit chercher à optimiser la valeur obtenue en contrepartie des dollars qu'il dépense. Le bon sens et de bonnes pratiques de gestion exigent que certaines conditions soient en place pour que le gouvernement puisse s'acquitter de ces obligations de fiduciaire. Ces conditions comprennent une bonne conception des programmes, une capacité suffisante pour exécuter chaque programme et des systèmes de contrôle interne efficaces.

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Une bonne conception. La loi ne fournit généralement qu'une orientation générale et un aperçu des plans de dépenses. Les gestionnaires des ministères sont donc responsables de la conception de chacun des programmes selon l'esprit de la loi. Ils doivent définir clairement les résultats souhaités et établir les priorités, choisir des mécanismes et des instruments appropriés pour exécuter les programmes et cerner les risques éventuels et trouver les moyens de les gérer.

La hâte entraîne le gaspillage. Le Programme d'adaptation et de redressement de la pêche de la morue du Nord en constitue un bon exemple. Créé en 1992 pour fournir de l'aide aux pêcheurs et aux travailleurs d'usines touchés par le moratoire sur la pêche à la morue, le Programme a été mis sur pied dans la hâte avant que des critères d'admissibilité et des contrôles financiers appropriés n'aient été établis. Par conséquent, on a versé des paiements à de nombreuses personnes que le moratoire ne touchait pas. De plus, contrairement à l'intention du Programme, des personnes qui avaient quitté la pêche ont repris cette activité. Consacrer le temps et les ressources nécessaires à l'établissement d'un plan efficace et réalisable pour mettre en oeuvre un programme est un investissement qu'il vaut la peine de faire.

Une capacité suffisante pour exécuter le programme. Le programme est-il doté des ressources suffisantes pour produire de façon efficiente les résultats escomptés? Les ressources sont-elles affectées de façon optimale aux tâches nécessaires à l'exécution du programme? Posséder une capacité suffisante est manifestement un ingrédient essentiel du succès d'un programme, mais cet ingrédient n'est pas toujours présent dans les ministères. Comme nous l'avons souligné en octobre dernier, des capacités de gestion et de contrôle financiers insuffisantes à DRHC, suite aux compressions et aux réorganisations du milieu des années 1990, ont compté parmi les facteurs qui ont contribué à la mauvaise gestion de plusieurs programmes dans ce ministère. De même, notre vérification du volet invalidité du Régime de pensions du Canada (RPC), en 1996, a permis de conclure que l'augmentation marquée du nombre de prestations d'invalidité versées au titre du RPC, au cours de la décennie précédente, était survenue en raison d'une capacité insuffisante d'analyser les tendances des prestations, de gérer les évaluations de l'admissibilité et d'examiner de façon systématique les dossiers afin de déceler les bénéficiaires qui n'étaient pas admissibles aux prestations. Créer de gros programmes de dépenses, puis les laisser, de fait, sur le « pilote automatique » n'est évidemment pas conforme au principe voulant que l'on maximise la valeur obtenue en contrepartie des dollars des contribuables. Un programme qui mérite d'être mis en oeuvre mérite d'être bien mis en oeuvre. Des ressources insuffisantes ou des ressources mal déployées peuvent miner l'efficacité du programme et entraîner du gaspillage, une perte de confiance et une érosion de l'appui envers le programme.

Établir de gros programmes de dépenses, puis les laisser, de fait, sur le « pilote automatique » n'est évidemment pas conforme au principe voulant que l'on maximise la valeur obtenue en contrepartie des dollars des contribuables.

Des systèmes de contrôle interne efficaces. On entend par contrôle interne les méthodes et les procédures utilisées par la direction pour obtenir l'assurance suivante : les décisions sont prises convenablement, les risques sont gérés, les opérations sont enregistrées, le rendement est surveillé et les résultats communiqués; en bref, tout ce qu'il faut pour faire en sorte que le programme soit géré comme il se doit.

Une fonction de vérification solide, qui met à l'épreuve la crédibilité des mesures du rendement et fournit l'assurance que le cadre de gestion permettant l'atteinte des objectifs du programme fonctionne comme prévu, fait partie intégrante d'un système de contrôle interne efficace. Lors des vérifications de portée gouvernementale réalisées en 1993 et en 1996, nous avons constaté des lacunes dans les fonctions de vérification interne de nombreux ministères. Depuis, des compressions disproportionnées dans les fonctions de vérification interne, d'évaluation et de revue ont affaibli celles-ci encore plus. Par exemple, à DRHC, le personnel de vérification interne, au nombre de 54 employés en 1994-1995, est passé à 33 en 1999-2000. Comme le reconnaissent les normes du Conseil du Trésor, la vérification interne est un outil essentiel à une gestion efficace. La traiter comme un accessoire ou comme quelque chose que l'on fait a posteriori peut mettre une organisation en péril.

Pour en savoir davantage, voir les publications suivantes du BVG : Citoyenneté et Immigration Canada — Le volet économique du programme canadien d'immigration, chapitre 3 du Rapport de 2000; L'évaluation des capacités de gestion financière des ministères, chapitre 13 du Rapport de 2000; Agence canadienne de développement international — La gestion des marchés et des accords de contribution, chapitre 14 du Rapport de 2000; La régie des sociétés d'État, chapitre 18 du Rapport de 2000; La vérification interne dans les ministères et les organismes, chapitre 4 du Rapport de 1996; Développement des ressources humaines du Canada — Régime de pensions du Canada — Invalidité, chapitre 17 du Rapport de 1996; La vérification interne, chapitre 7 du Rapport de 1993; Le ministère des Pêches et des Océans — Le Programme d'adaptation et de redressement de la pêche de la morue du Nord, chapitre 15 du Rapport de 1993.

La valeur des dépenses gouvernementales devrait être mesurée en fonction des résultats obtenus

Définir clairement les résultats d'un programme est une tâche difficile, particulièrement dans le secteur public où les objectifs de la politique sont souvent vastes de par leur nature, mais c'est une tâche qui est nécessaire. Historiquement, on a eu tendance à justifier les programmes gouvernementaux davantage en fonction des ressources utilisées que des résultats obtenus. Mais les gouvernements ne créent pas des programmes pour le plaisir de dépenser. Ils les créent pour assurer des services qui améliorent la vie des Canadiens. Quels résultats le programme doit-il obtenir? Comment saurons-nous s'il les obtient? Il faut répondre à ces questions aussi clairement que le permettent les conditions de chaque programme. C'est la raison pour laquelle le gouvernement doit gérer en fonction des résultats.

Historiquement, on a eu tendance à justifier les programmes gouvernementaux davantage en fonction des ressources utilisées que des résultats obtenus.

Comme il est indiqué dans le chapitre 20 du présent Rapport, la gestion axée sur les résultats d'une organisation exige les éléments suivants :

- favoriser un climat organisationnel où la gestion axée sur les résultats est valorisée, grâce au leadership exercé par la haute direction et à des incitatifs appropriés;
- convenir d'un cadre stratégique en vue d'obtenir des résultats, indiquant clairement les résultats à atteindre et la façon de les atteindre;
- s'entendre sur les résultats escomptés et les stratégies pour les programmes, en établissant des objectifs clairs et des indicateurs de rendement dès le départ;

- mesurer les résultats et utiliser cette information pour améliorer la conception et le fonctionnement du programme;
- communiquer efficacement l'information sur le rendement, c'est-à-dire de manière à ce que le Parlement et les parties intéressées puissent juger des résultats du programme.

L'établissement, dès le départ, d'objectifs et d'indicateurs de rendement clairs, et la surveillance et la communication régulières des résultats sont utiles à plusieurs points de vue. De tels objectifs et indicateurs favorisent l'amélioration du programme en aidant la direction à savoir s'il fonctionne bien. Ils augmentent la capacité du Parlement à tenir le gouvernement responsable de l'utilisation des fonds publics. Ils suscitent également la confiance du public envers le gouvernement, en permettant au public de savoir ce qu'il obtient en contrepartie des impôts versés et de savoir si les ressources sont optimisées.

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Le gouvernement reconnaît l'importance de la gestion axée sur les résultats. Dans un document publié en novembre 1995 et intitulé *Pour une fonction d'examen plus efficace*, il a annoncé l'engagement implicite d'établir « une philosophie de gestion axée sur les résultats »; il s'attendait aussi à ce que les « gestionnaires responsables des programmes et des services définissent les résultats escomptés, mesurent les progrès réalisés et rendent compte des résultats ». Comme nous l'indiquons dans le chapitre 20, le gouvernement a pris plusieurs initiatives importantes à l'appui de cet engagement, et la gestion axée sur les résultats est maintenant courante dans les ministères. Cependant, on éprouve encore beaucoup de difficulté à franchir certaines étapes essentielles, soit de mesurer les résultats et d'utiliser cette information pour améliorer le rendement.

Pour en savoir davantage, voir les publications suivantes du BVG : La gestion ministérielle axée sur les résultats et la gestion des questions horizontales axée sur les résultats, chapitre 20 du Rapport de 2000; Secrétariat du Conseil du Trésor — Rapport annuel sur les marchés du gouvernement — 1998, chapitre 29 du Rapport de 2000; Portefeuille de l'Industrie — L'investissement dans l'innovation, chapitre 19 du Rapport de 1999; La communication de l'information sur le rendement dans le Système de gestion des dépenses, chapitre 5 du Rapport de 1997; Vers une gestion axée sur les résultats, chapitre 11 du Rapport de 1997; Les sociétés d'État — Appliquer la mesure du rendement, chapitre 22 du Rapport de 1997.

Les programmes gouvernementaux de dépenses devraient toujours avoir leur raison d'être

Les ressources dont dispose le gouvernement évoluent au fil du temps, tout comme les besoins et les préférences du public. Pour s'assurer que les dépenses publiques servent aux fins qui sont jugées les plus utiles, le gouvernement doit évaluer régulièrement ses programmes et déterminer s'ils sont toujours pertinents, efficaces et efficients. Les questions auxquelles les évaluations doivent répondre sont les suivantes :

- Le programme répond-il toujours à une fin d'intérêt public clairement définie qui compte pour les Canadiens?
- Établirions-nous ce programme aujourd'hui s'il n'existait pas?
- Est-il souhaitable de le maintenir au niveau actuel?
- Peut-il être assuré plus efficacement ou de façon plus efficiente? A-t-on apporté des changements (infrastructure de l'environnement de service, technologies, etc.) depuis la création du programme qui permettraient maintenant d'atteindre ses objectifs de façon plus économique, efficiente ou efficace?

Ces questions sont semblables à celles que l'on s'est posées au cours de l'Examen des programmes effectué par le gouvernement et qui a précédé les mesures de réduction du déficit annoncées dans le Budget de février 1995. Le gouvernement soutient que l'Examen des programmes a permis d'établir les priorités qui devraient être retenues et de déterminer où les compressions des dépenses devraient être effectuées avec le moins de conséquences négatives pour le système et pour les Canadiens. Ce sont précisément les fins auxquelles sert l'évaluation de programme. Mais les évaluations de programme ne devraient pas être sporadiques ni découler d'une crise financière. L'évaluation systématique et continue des programmes est un aspect essentiel d'une bonne gestion du secteur public.

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Les déficits élevés et la nécessité de les surveiller étroitement ont vivement incité le gouvernement, au cours des années 1990, à examiner minutieusement ses programmes pour trouver des possibilités d'économiser et à évaluer avec soin les nouvelles propositions de dépenses. De fait, le Système de gestion des dépenses du gouvernement, annoncé au début de 1995, prévoyait que toutes les nouvelles dépenses devaient être financées par des réaffectations de fonds de programmes existants. Dans le contexte postdéficitaire actuel, la discipline budgétaire peut paraître moins nécessaire. Cependant, le besoin d'effectuer un examen continu des programmes gouvernementaux demeure, car il faut toujours s'assurer qu'ils continuent à répondre à une fin utile d'intérêt public, qu'ils demeurent efficients et efficaces et qu'ils sont à la mesure de nos moyens.

Pour en savoir davantage, voir les publications suivantes du BVG : L'évaluation au gouvernement fédéral, chapitre 3 du Rapport de 1996; L'évaluation de programme au gouvernement fédéral — Plaidoyer en faveur de l'évaluation de programme, chapitre 8 du Rapport de 1993; L'évaluation de programme dans les ministères — Le fonctionnement des services d'évaluation de programme, chapitre 9 du Rapport de 1993; Le système d'évaluation de programme — Les gages de succès, chapitre 10 du Rapport de 1993.

Les récentes prises de position du gouvernement sur les pratiques de dépenses sont louables, mais l'essentiel est d'y donner suite

L'engagement clair du gouvernement d'effectuer des « dépenses judicieuses » énoncé dans la publication du Conseil du Trésor *Des résultats pour les Canadiens et les Canadiennes — Un cadre de gestion pour le gouvernement du Canada*, diffusée plus tôt cette année, est encourageant. Des parties précises de cet engagement coïncident avec plusieurs des conditions préalables à une saine gestion des dépenses publiques dont je viens de parler, y compris l'accent mis sur les résultats, un environnement de contrôle adéquat et l'examen continu des dépenses pour faire en sorte que les contribuables en aient pour leur argent.

La version révisée de la politique sur les paiements de transfert annoncée en mai dernier par la Présidente du Conseil du Trésor est un autre pas dans la bonne direction. Les éléments clés de cette nouvelle politique — soit des critères d'admissibilité clairs, une diligence raisonnable dans le choix et l'approbation des bénéficiaires et des paiements, un cadre de reddition de comptes axé sur les résultats, l'amélioration des rapports au Parlement, la surveillance et l'évaluation continues — sont conformes aux recommandations que nous avons faites dans des rapports précédents de vérification des programmes de subventions et de contributions. Si elle est bien mise en oeuvre, la politique révisée devrait assurer une bien meilleure gestion des paiements de transfert gouvernementaux.

Une mise en oeuvre efficace est évidemment essentielle. Dans le reste du chapitre, j'examine la façon dont un cadre solide de valeurs et d'éthique et des incitatifs appropriés peuvent aider à passer des principes à la pratique.

Une solide assise au chapitre des valeurs et de l'éthique peut favoriser une gestion prudente des dépenses

Le gouvernement se fie de plus en plus aux valeurs et à l'éthique, plutôt qu'aux contrôles prescriptifs, pour assurer la probité et la prudence dans la fonction publique. Une solide assise au chapitre des valeurs et de l'éthique favorise le bon jugement dans les décisions en matière de dépenses et d'exécution des programmes. Il existe actuellement une telle assise dans la fonction publique fédérale, mais il ne faut pas la tenir pour acquise.

Comme nous l'avons indiqué dans le chapitre 12 du Rapport de cette année, les importants changements apportés dans le gouvernement, comme l'assouplissement des contrôles au niveau central et la délégation accrue des pouvoirs décisionnels, pourraient miner l'assise solide de valeurs et de règles d'éthique qui existe actuellement. Nous avons proposé un cadre pour aider à maintenir cette assise. Ce cadre met l'accent sur le leadership, la transparence de la prise de décisions et la prestation de conseils et de cours de formation aux fonctionnaires (voir la pièce 2).

Pièce 2 – Éléments d'un cadre d'éthique

- Énoncé de principes.
- Leadership des ministres et des hauts fonctionnaires.
- Habilitation des fonctionnaires pour qu'ils puissent exécuter leurs fonctions dans l'intérêt public.
- Transparence accrue de la prise de décisions.
- Formation liée à l'éthique.
- Mécanismes efficaces et dignes de confiance pour exprimer les préoccupations en matière d'éthique.

Source : Rapports du vérificateur général du Canada, 1995 et 2000.

Ces dernières années, le gouvernement a pris plusieurs mesures importantes pour maintenir une solide assise au chapitre des valeurs et de l'éthique dans la fonction publique fédérale. Le Rapport de 1996 du Groupe de travail sur les valeurs et l'éthique dans la fonction publique (Rapport Tait) a contribué à établir un consensus sur l'état actuel des valeurs et de l'éthique dans la fonction publique fédérale et sur les mesures à prendre. De plus, le gouvernement s'efforce de revitaliser la discussion sur ce sujet. Un certain nombre de ministères sont en train de mettre en oeuvre des programmes d'envergure de valeurs et d'éthique. Cependant, la majeure partie des travaux pour mettre en oeuvre les réformes nécessaires dans ce domaine n'en sont qu'au stade préliminaire.

Le gouvernement est confronté à plusieurs défis de taille dans ses efforts pour préserver l'éthique et des valeurs saines dans la fonction publique. Un ensemble de principes pour guider la fonction publique doit être établi, mais il ne peut être imposé. Il doit être établi avec la pleine participation des membres de la fonction publique et des parties qui font affaire avec le gouvernement. Pour que les principes soient crédibles, il est essentiel que les dirigeants donnent l'exemple dans toute la fonction publique.

Le gouvernement dit aux fonctionnaires que l'éthique suppose « l'engagement de faire la bonne chose ». Il leur conseille également de tenir compte, dans leur action, de leur obligation ou de leur pouvoir d'agir, de choisir la meilleure option et d'assumer la responsabilité des actes posés. Pour aider les fonctionnaires à suivre ce conseil, le gouvernement doit clarifier les responsabilités des ministres et des hauts fonctionnaires, de sorte que l'on comprenne mieux qui est responsable de quoi.

Le gouvernement est confronté à plusieurs défis de taille dans ses efforts pour préserver l'éthique et des valeurs saines dans la fonction publique.

Il faut aussi que les fonctionnaires aient des moyens efficaces d'intervenir de bonne foi et d'exprimer leurs préoccupations en matière d'éthique. Les fonctionnaires ne devraient pas se trouver dans la situation où ils croient que leur seul recours est d'exprimer leurs préoccupations publiquement. Il devrait être possible de régler efficacement les préoccupations en matière d'éthique au sein de l'organisation. Pour cela, il faut des mécanismes de recours clairs et dignes de confiance.

Enfin, les organisations et les personnes qui font affaire avec le gouvernement ou qui reçoivent des fonds du gouvernement ont un rôle d'appui à jouer. Ils doivent comprendre que l'on s'attend à ce qu'ils respectent eux aussi les valeurs et l'éthique qui sous-tendent une administration publique saine. Le gouvernement doit veiller à fournir des directives appropriées à cet égard.

Une solide assise de valeurs saines et de règles d'éthique est un aspect essentiel d'une bonne régie. Cette assise mérite un appui plus vigoureux et systématique que celui dont elle a bénéficié jusqu'à maintenant.
Le gouvernement doit manifester une plus grande détermination à cet égard, établir un plan qui traite de l'ensemble de la question et agir résolument pour le mettre en oeuvre.

Pour en savoir davantage, voir les publications suivantes du BVG : Les valeurs et l'éthique dans le secteur public fédéral, chapitre 12 du Rapport de 2000, Défense nationale —La conduite appropriée des affaires publiques, chapitre 26 du Rapport de 1999; Revenu Canada —Promouvoir l'intégrité au sein du Ministère, chapitre 15 du Rapport de 1998; La sensibilisation à l'éthique et à la fraude au gouvernement, chapitre 1 du Rapport de 1995.

Il faut utiliser les incitatifs à bon escient

Un engagement ferme envers les valeurs qu'imposent professionnalisme, intégrité et service réduit le risque que les titulaires de fonction ne se comportent pas bien ou abusent du pouvoir que leur confèrent leurs fonctions. Mais la vertu à elle seule ne suffit pas pour donner de bons résultats. Comme l'a fait observer l'économiste britannique réputé Alfred Marshall, [traduction] « le progrès dépend essentiellement de la mesure dans laquelle les sentiments *les plus forts,* et non seulement les sentiments *les plus élevés* de la nature humaine, peuvent être utilisés au profit du bien commun ». L'altruiste est plus charitable que l'avare, mais tous deux peuvent être enclins à moins donner si le coût de la charité augmente (par exemple, si l'on réduit la subvention fiscale au titre des dons de bienfaisance). Les incitatifs comptent. Comment les mettre à profit dans l'administration publique est une question de toute première importance. Il est regrettable qu'elle n'ait pas toujours reçu l'attention qu'elle méritait.

Tant le bâton que la carotte doivent être utilisés. Un abus délibéré de pouvoirs doit entraîner des mesures correctives appropriées. Un bon rendement — un rendement supérieur aux attentes — doit être récompensé comme il se doit. Les possibilités d'associer des récompenses au rendement ne sont peut-être pas aussi courantes dans le secteur public que dans le secteur privé, mais elles existent. Les primes, les promotions et les réaffectations sont quelques-uns des moyens disponibles. Les programmes de reconnaissance publique pour la qualité du travail ou la reconnaissance des collègues peuvent également inciter davantage à l'amélioration du rendement et sont souvent plus faciles à mettre en oeuvre que les programmes d'incitatifs monétaires.

La question du choix de bons incitatifs va au-delà des récompenses et des sanctions individuelles et s'étend aux règles plus vastes en vigueur au gouvernement.

La question du choix de bons incitatifs va au-delà des récompenses et des sanctions individuelles et s'étend aux règles plus vastes en vigueur au gouvernement. Pour illustrer cela, mentionnons que jusqu'en 1993, toutes les économies réalisées par les ministères — toutes les sommes non dépensées à la fin de l'exercice — retournaient dans les coffres du gouvernement. Avec un tel système, quel incitatif avait-on d'économiser? En 1993, le processus d'octroi des crédits a été modifié pour permettre aux ministères de reporter une partie des fonds non dépensés à l'exercice suivant. Depuis ce changement, la forte augmentation des dépenses en fin d'exercice dans les ministères est moins courante qu'elle ne l'était.

Malheureusement, avec l'élimination du déficit il y a trois ans, le gouvernement a adopté comme pratique d'annoncer de nouvelles dépenses importantes vers la fin de l'exercice, de manière à réduire l'excédent prévu à un niveau ne dépassant pas la « réserve pour éventualités » de trois milliards de dollars incluse dans les prévisions budgétaires. En raison de cette pratique, en grande partie, les dépenses cumulatives dépassant les prévisions budgétaires ont totalisé 10,5 milliards au cours des 3 dernières années.

Des incitatifs mal structurés semblent également avoir joué un rôle dans la mauvaise gestion des programmes de création d'emplois à DRHC. Selon des témoignages devant le Comité permanent du développement des ressources humaines et de la condition des personnes handicapées, des pressions étaient souvent exercées sur les employés de première ligne de DRHC pour qu'ils approuvent rapidement les projets et dépensent les fonds disponibles. Il se peut que les employés qui faisaient preuve de prudence aient été mal évalués parce qu'ils n'avaient pas octroyé suffisamment de fonds.

Des erreurs peuvent se produire dans toute organisation. Quand elles se produisent dans le secteur privé, il existe de forts incitatifs pour les corriger rapidement et aller de l'avant : les marchés financiers et les résultats sont des moteurs puissants.

On a parfois tendance, au gouvernement, à avancer à pas prudents quand il s'agit de déceler les erreurs et à réagir lentement lorsqu'on en trouve.

Dans le secteur public, corriger les erreurs paraît souvent moins pressant. Pour les corriger, il faut tout d'abord les reconnaître. Mais quels avantages les ministres et la haute direction ont-ils à reconnaître une erreur? Les conséquences peuvent souvent être graves. Par ailleurs, il suffit de camoufler l'erreur et la vie continue : personne n'écope sauf les contribuables. On a donc parfois tendance, au gouvernement, à avancer à pas prudents quand il s'agit de déceler les erreurs et à réagir lentement lorsqu'on en trouve.

Un certain nombre de leçons se dégagent de cette expérience :

- Les fonctionnaires doivent faire preuve de courage pour faire connaître les erreurs et les abus administratifs. Quand ils le font, ils méritent d'être protégés des châtiments que pourraient leur imposer leurs maîtres bureaucratiques ou politiques en raison des ennuis qu'ils pourraient avoir causés. Comme l'a conclu le Groupe de travail sur les valeurs et l'éthique dans la fonction publique, il faut des mécanismes adéquats pour permettre aux fonctionnaires d'exprimer leur dissension et de soulever des préoccupations d'ordre éthique sans en souffrir.
- La reddition de comptes exige que les gens acceptent d'assumer la responsabilité de leurs erreurs — cela va de soi. Par ailleurs, s'attacher

trop au blâme peut être contre-productif. Si nous voulons habiliter les employés et les encourager à innover, il faut être prêt à courir le risque qu'ils commettent des erreurs et qu'ils prennent parfois de mauvaises décisions. Quand cela se produit, il faut plutôt chercher à apprendre de l'expérience plutôt qu'à blâmer.

- Le Parlement et le public devraient encourager le gouvernement à faire preuve de plus d'ouverture et de transparence. De l'information claire et actuelle sur l'argent dépensé, sur son utilisation et sur les résultats obtenus permet à ceux qui sont à l'extérieur de l'organisation de surveiller le débours des fonds pour vérifier s'il est bien conforme aux intentions de la politique et s'il est effectué avec probité et prudence. Le fait de savoir que leurs activités sont visibles encourage les fonctionnaires et leurs maîtres politiques à afficher un comportement qui peut résister à un examen. **Globalement, une transparence et une reddition de comptes améliorées créent des institutions plus fortes et un gouvernement plus efficace.**

Une transparence et une reddition de comptes améliorées créent des institutions plus fortes et un gouvernement plus efficace.

Pour en savoir davantage, voir les publications suivantes du BVG : Portefeuille de l'Agriculture —Les frais d'utilisation, chapitre 11 du Rapport de 1999; Le ministère des Finances et Revenu Canada —Encouragements fiscaux à la recherche et au développement, chapitre 32 du Rapport de 1994; L'organisation évolutive, chapitre 5 du Rapport de 1992.

Conclusion

La dernière décennie a été marquée par un fort mouvement vers une vision moins bureaucratique et plus souple de la gestion dans le secteur public fédéral. L'assouplissement des contrôles au niveau central, le pouvoir discrétionnaire accru accordé aux gestionnaires, l'accent mis sur les résultats par rapport au processus — ce sont tous des éléments de cette tendance. C'est une tendance que je préconise et appuie fortement, mais elle a son revers. Comme le portent à croire certaines pratiques de dépenses laxistes rendues publiques récemment, quand les contrôles sont réduits et qu'un plus grand pouvoir discrétionnaire est accordé, on court le risque que ce pouvoir soit mal utilisé et que les choses tournent mal.

Pour réduire ce risque au minimum, il faut certains principes fondamentaux pour accompagner la délégation des pouvoirs afin de guider les décisions de dépenses et d'établir des limites appropriées à l'utilisation du pouvoir discrétionnaire. En termes généraux, ces principes exigent que l'on agisse dans le cadre des pouvoirs octroyés et que l'on fasse preuve de prudence, tout en continuant de mettre l'accent sur les résultats qui comptent pour les Canadiens. Un tel cadre, renforcé par des incitatifs, des valeurs et une éthique appropriés, peut aider à rendre le gouvernement à la fois frugal et efficace.

L'économie canadienne se trouve sur une trajectoire fortement ascendante depuis les dernières années, et les coffres du gouvernement débordent. La prospérité ne suscite généralement pas des efforts intensifs pour faire preuve d'économie et d'efficience. Il importe donc que les parlementaires et le public demeurent vigilants et insistent pour que les dépenses publiques interviennent dans un cadre qui respecte la suprématie du Parlement et favorise l'optimisation des dollars des contribuables.

Annexe : Autres questions

Les réformes de la gestion des ressources humaines n'ont pas répondu aux attentes

La gestion publique au Canada a évolué considérablement au cours de la dernière décennie, s'attachant moins aux contrôles détaillés au niveau central pour mettre davantage l'accent sur les résultats. Dans le cadre de ce changement, les ministères et leurs employés se sont vu accorder de plus vastes pouvoirs et une plus grande discrétion pour trouver des façons innovatrices d'atteindre les objectifs. Ces changements ont mis en lumière l'importance d'améliorer la gestion des employés du gouvernement en vue d'obtenir les résultats souhaités. Comme je l'ai souligné à maintes occasions, le succès dans ce domaine est essentiel à la réussite de la réforme globale de la fonction publique, car ce sont des personnes qui doivent mettre en oeuvre les réformes, assurer les services et faire des commentaires afin d'améliorer le rendement.

Malgré d'importantes initiatives au cours des années 1990, les réformes de la gestion des ressources humaines n'ont pas répondu aux attentes. En outre, il est devenu plus urgent de relever ces défis. L'une des raisons de cette urgence est que les mesures prises pour faire face aux conditions financières difficiles ont exacerbé les conflits de travail et amené de nombreux fonctionnaires à se demander s'il était sage de faire carrière dans la fonction publique. Une autre raison est que la fonction publique est confrontée à des préoccupations nouvelles ou accrues. Parmi celles-ci, on compte la forte augmentation imminente des départs à la retraite, qui laisse présager une crise de leadership, et la concurrence accrue livrée par les autres employeurs à l'égard des « travailleurs du savoir ».

Il faut une véritable percée dans la gestion des ressources humaines pour que la fonction publique puisse relever les défis qui se posent à elle. Pour faire cette percée, il est essentiel de régler trois problèmes qui persistent depuis longtemps. Le cadre administratif qui régit la fonction publique est lourd, coûteux et mal adapté aux exigences de la gestion moderne. La responsabilité est fragmentée au point où le leadership est absent et où la reddition de comptes à l'égard des réformes est peu claire. De plus, l'augmentation de l'autonomie des ministères exige des changements importants dans les rôles joués par les gestionnaires des ministères. Les sous-ministres, vus traditionnellement comme les premiers responsables de l'administration d'un cadre prescrit au niveau central, doivent plutôt assumer une responsabilité cruciale quant à la façon dont leurs ressources humaines sont gérées et au maintien d'un milieu de travail sain dans leurs ministères.

Pour en savoir davantage, voir les publications suivantes du BVG : La rationalisation du régime de gestion des ressources humaines : une étude de l'évolution des rôles et des responsabilités, chapitre 9 du Rapport de 2000; Le Programme de recrutement post-secondaire de la fonction publique fédérale, chapitre 21 du Rapport de 2000; L'élaboration de la Norme générale de classification : suivi, chapitre 22 du Rapport de 2000.

Les capacités de gestion financière des ministères sont insuffisantes par rapport aux besoins

Encourager une meilleure gestion financière au gouvernement est pour mon bureau une priorité stratégique de longue date. C'est dans cette optique que nous avons publié, en avril 1999, le Modèle de la capacité de gestion financière, cadre qui décrit les éléments essentiels de la gestion financière dans les ministères et les organismes du gouvernement. Le Modèle énonce les attentes du Bureau en matière de gestion financière et servira de référence pour la réalisation des prochaines vérifications dans ce domaine.

Dans le chapitre 13 du Rapport de cette année, nous présentons les résultats d'une vérification des capacités de gestion financière de cinq ministères. Nous avons constaté qu'aucun de ces ministères ne satisfaisait aux exigences des importantes initiatives gouvernementales en cours, comme la modernisation de la fonction de contrôleur et la Stratégie d'information financière. Ces initiatives visent à moderniser la façon dont le gouvernement gère ses ressources, en renforçant les contrôles internes et en fournissant de l'information de meilleure qualité pour appuyer la planification, la prise de décisions et la communication de l'information.

L'une des faiblesses les plus courantes que nous avons constatée est la capacité limitée d'intégrer l'information financière et non financière. Sans information intégrée, les gestionnaires des ministères ne peuvent déterminer avec exactitude combien il en coûte pour produire un résultat donné ou assurer un service d'un niveau donné. Ils ont besoin de ce genre d'information pour prendre de bonnes décisions, gérer les risques adéquatement et rendre dûment compte de l'utilisation des ressources.

Il sera difficile de moderniser les activités gouvernementales sans de solides capacités de gestion financière. L'établissement de ces capacités dans l'ensemble du gouvernement exigera l'aide soutenue et les efforts concertés du Secrétariat du Conseil du Trésor, du Bureau du Conseil privé et des sous-ministres. Comme ces importantes initiatives gouvernementales dépendent de capacités qui n'existent pas actuellement, il n'y a pas de temps à perdre.

Pour en savoir davantage, voir les publications suivantes du BVG : L'évaluation des capacités de gestion financière des ministères, chapitre 13 du Rapport de 2000; Le Modèle de la capacité de gestion financière, avril 1999; La Stratégie d'information financière : l'état de préparation des ministères, chapitre 21 du Rapport de 1999; La Stratégie d'information financière : un outil essentiel pour repenser le rôle de l'État, chapitre 18 du Rapport de 1998.

L'information communiquée sur le rendement s'est améliorée, mais les progrès sont lents

Dans le chapitre 19 du présent Rapport, nous examinons l'information communiquée au Parlement sur le rendement des ministères. Il y a eu une certaine amélioration depuis notre vérification de 1997, mais je suis déçu de la lenteur des progrès. Les rapports sur le rendement d'aujourd'hui offrent une meilleure information que celle dont disposaient les parlementaires dans les anciennes parties III du *Budget des dépenses*, mais ils font toujours trop le compte rendu des activités plutôt que de décrire les résultats obtenus par rapport aux résultats escomptés. Trop souvent, les résultats escomptés sont exprimés vaguement et le compte rendu du rendement ne fait aucun lien entre les réalisations et les avantages à long terme pour les Canadiens.

Les députés et le public ont besoin d'une information sur le rendement de bonne qualité pour pouvoir tenir le gouvernement responsable. Les parlementaires ont besoin de cette information pour étudier en comités les programmes ministériels et examiner le processus budgétaire. Les parlementaires pourraient envisager de légiférer pour être certains d'obtenir cette information. Des changements au mécanisme de rapport s'imposent également. Il faut une entente sur les principes de rapport, plus d'incitatifs à la communication d'une information de bonne qualité et une surveillance et un examen critique plus rigoureux de la part du Secrétariat du Conseil du Trésor. Les ministères ont également besoin d'information sur le rendement pour améliorer leurs programmes et leurs services.

Je suis heureux de constater que la focalisation sur les résultats semble maintenant imprégner la philosophie de gestion des ministères et la communication de l'information sur le rendement. Mais une mise en oeuvre efficace exige que les prochaines étapes — la mesure des résultats, l'utilisation de cette information pour améliorer les programmes et la communication au Parlement d'une information crédible sur les résultats — soient franchies sans plus tarder.

Pour en savoir davantage, voir les publications suivantes du BVG : L'information sur le rendement communiquée au Parlement : les progrès sont trop lents, chapitre 19 du Rapport de 2000; La gestion ministérielle axée sur les résultats et la gestion des questions horizontales axée sur les résultats, chapitre 20 du Rapport de 2000; La communication de l'information sur le rendement dans le Système de gestion des dépenses, chapitre 5 du Rapport de 1997.

Le système d'éducation des enfants indiens vivant dans les réserves ne réussit pas à répondre à leurs besoins

En avril de cette année, nous avons rendu compte de notre vérification de l'enseignement primaire et secondaire donné aux enfants indiens qui vivent dans les réserves. Affaires indiennes et du Nord Canada (MAINC) attribue environ un milliard de dollars par année à cette fin, outre le financement de la construction et de l'entretien des écoles.

La vérification a révélé des lacunes graves en matière de scolarisation des étudiants des Premières nations par rapport à celle des autres Canadiens. Le taux de décrochage de ces étudiants avant la neuvième année est six fois plus élevé que celui de la population canadienne en général. La proportion de la population vivant dans les réserves et qui possède un diplôme d'études secondaires est beaucoup moins élevée que dans la population en général. De plus, il n'est pas certain que l'éducation reçue par les enfants indiens réponde à leurs besoins culturels.

Ces faibles résultats reflètent les lacunes de longue date des programmes d'éducation financés par le MAINC. Tout d'abord, le Ministère n'a pas défini son rôle en matière d'éducation. La définition de ce rôle est essentielle tant aux fins de la reddition de comptes que pour permettre au Ministère de savoir si ses capacités et ressources actuelles sont suffisantes pour remplir ce rôle.

Le Ministère doit aussi régler plusieurs questions opérationnelles importantes, notamment la façon dont les fonds d'éducation sont administrés. À la suite du transfert des responsabilités à l'égard des programmes et de la délégation des pouvoirs, le Ministère en est venu à se fier aux Premières nations et aux provinces pour la prestation des services d'éducation. Le Ministère doit prendre les mesures nécessaires pour garantir que ces services — qu'il finance — sont efficients et efficaces.

Répondre aux besoins d'éducation des enfants indiens est urgent. En l'absence de progrès satisfaisants, les coûts financiers des programmes sociaux seront élevés, la perte de capital humain augmentera et les relations entre le gouvernement et les membres des Premières nations se détérioreront.

Pour en savoir davantage, voir la publication suivante du BVG : Affaires indiennes et du Nord Canada — L'enseignement primaire et secondaire, chapitre 4 du Rapport de 2000.

Les programmes fédéraux de réglementation relatifs à la santé et à la sécurité posent des défis de taille

Les programmes fédéraux de réglementation relatifs à la santé et à la sécurité portent sur des questions qui vont de l'inspection des aliments à la réglementation de l'énergie nucléaire, en passant par la pollution de l'environnement et la sécurité aérienne. Ils visent essentiellement à protéger les Canadiens des risques liés à la santé et à la sécurité. Cette tâche devient de plus en plus complexe et exige par conséquent une stratégie tout aussi sophistiquée.

Les programmes fédéraux de réglementation relatifs à la santé et à la sécurité ont fait l'objet de changements profonds au cours de la dernière décennie. Ils ont été restructurés de manière à rationaliser la prestation des services. Au lieu d'une réglementation directe (conçue et imposée par le gouvernement), on fait désormais davantage confiance aux normes élaborées par des tiers, comme les codes volontaires de l'industrie. Le financement des programmes a également été réduit, mais il a été en partie réinstauré récemment.

Certains de ces changements ont eu une incidence négative sur la confiance du public dans l'efficacité et la crédibilité de ces programmes de réglementation. Restaurer la confiance du public est l'un des défis majeurs auxquels les responsables de ces programmes sont confrontés aujourd'hui. Parmi les autres défis, on note un risque important de contestations judiciaires pour négligence dans la réglementation, découlant des décisions des tribunaux au cours de la dernière décennie; la nécessité de coordonner les activités entre les ministères et les administrations, car de nombreuses questions de santé et de sécurité transcendent les mandats des ministères et les frontières politiques; et la nécessité de recruter du personnel spécialisé sur une vaste échelle, étant donné la forte proportion des employés qui seront bientôt admissibles à la retraite.

Dans le chapitre 24 du Rapport, nous présentons un certain nombre de recommandations qui peuvent aider le gouvernement à relever ces défis.

Pour en savoir davantage, voir les publications suivantes du BVG : Les programmes fédéraux de réglementation relatifs à la santé et à la sécurité, chapitre 24 du Rapport de 2000; Agence canadienne d'inspection des aliments — Les programmes d'inspection des aliments, chapitre 25 du Rapport de 2000; Santé Canada —Le régime de réglementation des produits biologiques, chapitre 26 du Rapport de 2000; Commission canadienne de sûreté nucléaire —La réglementation des centrales nucléaires, chapitre 27 du Rapport de 2000; Suivi de recommandations antérieures sur des programmes de réglementation relatifs à la santé et à la sécurité; chapitre 28 du Rapport de 2000.

La régie des sociétés d'État pourrait être meilleure

La régie des institutions a trait aux processus et aux structures pour surveiller la direction et la gestion d'une société de sorte qu'elle s'acquitte de son mandat et de ses objectifs efficacement. Il est essentiel qu'une société d'État soit bien régie pour que l'argent des contribuables soit bien dépensé. En nous fondant sur notre expérience générale de la vérification de sociétés d'État et sur notre examen plus spécifique de 15 sociétés, nous avons relevé des lacunes dans 3 secteurs qui ont une importance pour la régie des sociétés d'État.

Premièrement, les conseils d'administration doivent être renforcés. À l'heure actuelle, ils ne possèdent pas les compétences ni les capacités essentielles pour surveiller de façon efficace la gestion des sociétés d'État. Les sociétés doivent mieux définir leurs exigences à ce chapitre et le gouvernement doit y donner suite. Les conseils d'administration doivent également participer de façon plus active à la sélection du premier dirigeant de la société. Sans une participation significative du conseil à ce processus, la reddition de comptes du premier dirigeant au conseil est affaiblie et c'est la régie dans son ensemble qui en souffre.

Deuxièmement, les comités de vérification des conseils d'administration des sociétés d'État, souvent, ne suivent pas les meilleures pratiques reconnues. Le comité de vérification joue un rôle essentiel dans la communication de l'information financière, la gestion des risques et le contrôle interne. Parmi les comités que nous avons examinés, la moitié ont été jugés inefficaces ou à peine efficaces.

Enfin, la capacité du gouvernement d'effectuer un examen critique des plans d'entreprise des sociétés est limitée. Le gouvernement doit renforcer cette capacité, puisque c'est à partir de ces plans qu'il tient les sociétés d'État responsables de leur respect de la politique gouvernementale et de leur rendement global.

Pour en savoir davantage, voir les publications suivantes du BVG : La régie des sociétés d'État, chapitre 18 du Rapport de 2000; Les Sociétés d'État : S'acquitter des responsabilités en matière d'intendance, chapitre 10 du Rapport de 1995.

Possibilités d'économies

Améliorer l'efficience et l'efficacité des activités gouvernementales et cultiver un juste souci de l'économie sont des objectifs essentiels de notre mandat et des travaux que nous effectuons au Bureau. Dans la plupart des cas, il n'est pas facile de quantifier l'incidence de nos travaux, mais il arrive souvent que, au cours de nos vérifications, nous trouvions des possibilités d'économies auxquelles on peut mettre un prix. Voici quelques exemples tirés des rapports de vérification de cette année :

La gestion des soins de santé offerts aux Premières nations. Dans une vérification effectuée en 1997 des programmes de santé assurés aux collectivités des Premières nations, nous avions constaté la nécessité d'instaurer un système de traitement aux points de service pour contrôler l'administration des prestations. Nous avions également recommandé que Santé Canada prenne les mesures qui s'imposaient pour améliorer les contrôles et les vérifications du système de traitement des remboursements. Au cours d'un suivi effectué cette année, nous avons constaté que l'identification et le rejet des demandes inappropriées avaient permis d'économiser 8,4 millions de dollars en 1999, mais que d'autres améliorations étaient toujours possibles.

Non-recouvrement des dépenses par Affaires indiennes et du Nord Canada. Le Ministère a dépensé environ 151 millions depuis 1997 pour assurer l'approvisionnement continu en eau potable des collectivités Cris touchées par des projets d'aménagement hydroélectrique de Manitoba Hydro. Aux termes d'une convention signée en 1997, Manitoba Hydro est tenue de rembourser au Ministère 50 p. 100 des dépenses attribuables aux effets négatifs des projets d'aménagement hydroélectrique. Nous avons noté dans le chapitre 17 que le Ministère n'avait recouvré aucune somme jusqu'à maintenant.

Frais de service de la dette. Afin de limiter les effets des augmentations imprévues des taux d'intérêt, le gouvernement a augmenté la proportion de titres à taux fixe de la dette totale fédérale de 55 p. 100 en 1995 à 67 p. 100 en 1998, proportion qui est toujours la même aujourd'hui. Dans le chapitre 8, nous avons recommandé que le gouvernement revoie son objectif concernant la structure de la dette pour déterminer si, à la lumière de la nouvelle situation financière, il demeure valable. Nous avons indiqué dans le chapitre que si l'on se fonde sur les différences historiques entre les taux à court et à long termes, une variation de 5 p. 100 de la part des titres à taux fixe par rapport aux titres à taux flottant pourrait produire une économie annuelle d'environ 250 millions de dollars.

Pour en savoir davantage, voir les publications suivantes du BVG : Ministère des Finances —La gestion de la dette du Canada : les nouveaux défis à relever, chapitre 8; Santé Canada —La santé des Premières nations : suivi, chapitre 15; Autres observations de vérification, chapitre 17 du Rapport de 2000.

Points saillants

Table des matières

Page

Points saillants – Avril 2000

Chapitre

1 La qualité du service 5

2 Développement des ressources humaines Canada – La qualité du service au niveau local 7

3 Citoyenneté et Immigration Canada – Le volet économique du programme canadien d'immigration 9

4 Affaires indiennes et du Nord Canada – L'enseignement primaire et secondaire 11

5 Agence des douanes et du revenu du Canada – Les voyageurs arrivant au Canada : la gestion des risques aux points d'entrée 12

6 Agence des douanes et du revenu du Canada et ministère des Finances – Le traitement des demandes de crédit d'impôt pour la recherche scientifique et le développement expérimental 14

7 Gendarmerie royale du Canada – Les services offerts aux responsables de l'application de la loi 16

8 Ministère des Finances – La gestion de la dette du Canada : les nouveaux défis à relever 18

9 La rationalisation du régime de gestion des ressources humaines : une étude de l'évolution des rôles et des responsabilités 20

Points saillants – Octobre 2000

Chapitre

10 Transports Canada – Les cessions d'aéroports : le Réseau national d'aéroports 22

11 Développement des ressources humaines Canada – Les subventions et les contributions 24

12 Les valeurs et l'éthique dans le secteur public fédéral 26

13 L'évaluation des capacités de gestion financière des ministères 28

14 Agence canadienne de développement international – La gestion des marchés et des accords de contribution 30

15 Santé Canada – La santé des Premières nations : suivi 32

16 Suivi des recommandations formulées dans des rapports antérieurs 34

17 Autres observations de vérification 35

Table des matières

Page

Points saillants – Décembre 2000

Chapitre

18 La régie des sociétés d'État 36

19 L'information sur le rendement communiquée au Parlement : les progrès sont trop lents 38

20 La gestion ministérielle axée sur les résultats et la gestion des questions horizontales axée sur les résultats 40

21 Le Programme de recrutement postsecondaire de la fonction publique fédérale 42

22 L'élaboration de la Norme générale de classification : suivi 44

23 Les technologies de l'information : l'acquisition de biens et de services 46

24 Les programmes fédéraux de réglementation relatifs à la santé et à la sécurité 48

25 Agence canadienne d'inspection des aliments – Les programmes d'inspection des aliments 50

26 Santé Canada – Le régime de réglementation des produits biologiques 52

27 Commission canadienne de sûreté nucléaire – La réglementation des centrales nucléaires 54

28 Suivi de recommandations antérieures sur des programmes de réglementation relatifs à la santé et à la sécurité 55

29 Secrétariat du Conseil du Trésor – Rapport annuel sur les marchés du gouvernement – 1998 56

30 Pêches et Océans – Les effets de la salmoniculture en Colombie-Britannique sur la gestion des stocks de saumon sauvage 58

31 Pêches et Océans – La gestion de la flotte 60

32 Défense nationale – La productivité des services de soutien de la Défense : un rapport d'étape 62

33 Suivi des recommandations formulées dans des rapports antérieurs 64

34 Autres observations de vérification 66

35 La stratégie de développement durable du Bureau du vérificateur général 67

La qualité du service

Chapitre 1 – Points saillants

1.1 Notre vérification avait pour objet de déterminer si le gouvernement fédéral a fourni un service de meilleure qualité aux Canadiens après dix ans d'engagements et d'initiatives de toutes sortes pour l'améliorer. En 1996, nous avons fait une évaluation à mi-parcours des progrès du gouvernement. Dans la présente vérification, nous avons passé en revue les 13 mêmes gammes de services fournis par dix ministères et organismes gouvernementaux.

1.2 L'amélioration la plus marquée depuis 1996 est la plus grande accessibilité des services téléphoniques. Lorsqu'on répond à leurs appels, les Canadiens obtiennent maintenant plus rapidement une réponse à leurs demandes de renseignements. Cependant, malgré cette amélioration, nous nous inquiétons de la proportion élevée d'appels qui restent sans réponse lorsque les lignes sont occupées ou que les personnes qui attendent pour parler à un agent abandonnent l'appel. À l'Agence des douanes et du revenu du Canada (Impôt), le pourcentage d'appels restés sans réponse demeure élevé à 54 p. 100, bien qu'il constitue une amélioration par rapport à 1996 où il était de 73 p. 100.

1.3 Pour la plupart des services fournis autrement que par téléphone, comme le service au comptoir, l'information sur le rendement était insuffisante et nous ne pouvions pas établir si le service s'était amélioré. Le Bureau des passeports a mesuré certains de ses principaux résultats et a grandement amélioré son rendement. De nombreux ministères et organismes ont pris des initiatives depuis 1996 pour améliorer le service, mais ils n'ont pas suffisamment mesuré les résultats.

1.4 Les ministères et organismes doivent davantage consulter leurs clients pour définir les aspects du service qui sont les plus importants pour eux, de même que la qualité du service attendue. Cette information aiderait les fournisseurs de service à établir des objectifs et des indicateurs appropriés pour mesurer le rendement.

1.5 Depuis 1996, la communication avec les clients s'est améliorée aux points de service. Les Canadiens qui se rendent à ces bureaux sont mieux informés sur le niveau de service auquel ils sont en droit de s'attendre. Toutefois, on doit mieux les informer au sujet du coût des services, de l'atteinte des objectifs et de la manière de déposer et de régler une plainte.

Contexte et autres observations

1.6 La demande de services au gouvernement fédéral par les Canadiens — qu'il s'agisse par exemple de renseignements sur la citoyenneté et l'immigration, la Sécurité de la vieillesse et les passeports ou d'information météorologique ou statistique — s'est accrue considérablement depuis 1996. Les volumes de service sont plus élevés dans dix des 13 gammes de services que nous avons vérifiées. En même temps, l'environnement de la prestation des services se transforme continuellement grâce aux progrès rapides des technologies de l'information et à l'utilisation croissante des nouveaux modes de prestation des services.

1.7 Les services téléphoniques sont de plus en plus utilisés alors que l'on constate une baisse de l'utilisation des services au comptoir. Dans les services téléphoniques gouvernementaux que nous avons vérifiés, le volume de demandes de renseignements téléphoniques était monté en flèche, passant de 36 millions en 1996 à 56 millions en 1999, soit une hausse de 54 p. 100. Le nombre de demandes écrites de renseignements (courrier, télécopieur et courriel), bien qu'il reste important pour certaines gammes de services, affiche, en général, un recul marqué.

1.8 Les gestionnaires des services ont donné suite à nos recommandations de 1996 et cherché des moyens pour obtenir une amélioration continue, mais aucune des recommandations n'a été pleinement mise en oeuvre. Toutefois, nous avons constaté que les gestionnaires et le personnel de la fonction publique mettent beaucoup plus l'accent sur le service et l'innovation.

1.9 C'est avec découragement que nous avons constaté la lenteur des progrès accomplis par le projet d'amélioration des inscriptions du gouvernement (les « pages bleues »). Le groupe de travail sur le service au public de Fonction publique 2000 a établi, en 1990, qu'un remodelage de ces pages était nécessaire.

1.10 Au cours des trois dernières années, les ministères et organismes ont fourni au Parlement plus d'information sur la qualité du service, et l'information communiquée sera probablement plus utile. L'information sur les tendances du rendement et sur les coûts des services doit cependant être améliorée.

1.11 Depuis 1998, le Secrétariat du Conseil du Trésor a donné aux ministères et aux organismes une orientation et un appui plus soutenus pour améliorer la prestation des services. Toutefois, il n'a pas surveillé systématiquement les progrès dans l'ensemble du gouvernement, et l'information qu'il a communiquée au Parlement n'a pas permis de bien comprendre les progrès accomplis en vue d'améliorer la qualité du service fourni aux Canadiens.

La réponse que fait le Secrétariat du Conseil du Trésor au nom du gouvernement est présentée à la fin du chapitre. Le Secrétariat précise que la nouvelle présentation des pages bleues sera intégrée dans les annuaires téléphoniques selon les calendriers de publication établis. Il marque son accord avec nos recommandations portant sur les systèmes de mesure, la satisfaction du client et la communication de l'information. Il indique qu'il collabore avec les ministères en vue d'élaborer une stratégie pour promouvoir l'amélioration continue de la prestation des services dans l'ensemble de l'administration fédérale.

Développement des ressources humaines Canada

La qualité du service au niveau local

Chapitre 2 – Points saillants

2.1 Développement des ressources humaines Canada (DRHC) a fait des progrès considérables au chapitre de la qualité du service. Au cours des dernières années, le Ministère a pris différentes initiatives nationales, notamment en élaborant une politique qui précise son approche d'un service de grande qualité; en mettant en oeuvre un nouveau réseau de prestation de services pour rendre ceux-ci plus accessibles aux Canadiens; et en établissant quels engagements nationaux il prenait. Au niveau local, mentionnons des initiatives visant à améliorer les compétences des employés en matière de service et l'utilisation de nouvelles technologies.

2.2 Bien que DRHC ait pris des engagements nationaux, ils ne sont pas communiqués uniformément aux clients dans les points de service. De plus, les bureaux locaux ne divulguent pas aux clients, de façon uniforme, la mesure du rendement en regard des objectifs de la prestation de services, le coût des services et la façon de déposer une plainte sur le service reçu et d'obtenir réparation.

2.3 Le Ministère n'a pas de mesures du rendement pour évaluer tous les engagements nationaux qu'il a pris. Les mesures du rendement des services sont centrées sur le temps d'attente pour les services au comptoir ainsi que sur la rapidité du traitement des demandes et des paiements. Toutefois, nous avons noté des faiblesses concernant la mesure de ces deux indicateurs.

2.4 En dépit des améliorations qui ont été apportées à la rapidité du paiement des prestations d'assurance-emploi au cours des trois dernières années, on estime qu'au cours de cette période les paiements erronés sont passés de quatre à six dollars pour chaque 100 $ payés. Selon l'information disponible, on remarque une augmentation aussi bien des moins-payés que des trop-payés; cette augmentation est due notamment à une diminution de la qualité de l'information soumise par les employeurs. Nous avons constaté que les gestionnaires des bureaux locaux mettent surtout l'accent sur la rapidité des paiements. On ne trouve ni objectifs de rendement ni mesures de l'exactitude pour le traitement des demandes au niveau local.

2.5 Les services d'aide à l'emploi sont de plus en plus offerts par des organisations non gouvernementales en vertu d'accords de contribution conclus avec DRHC. Les accords que nous avons examinés ne décrivent pas les attentes ou les objectifs pour ce qui est du rendement des services. Ils n'exigent pas non plus que les organisations non gouvernementales rendent compte de la qualité des services offerts.

2.6 L'information que le Ministère fournit au Parlement au sujet de sa performance en regard des engagements nationaux qu'il a pris présente des lacunes. De plus, nous avons constaté des lacunes dans l'information qui pourrait mettre en perspective le rendement des services qui est communiqué. Il n'est pas possible, par exemple, d'évaluer la rapidité du paiement des prestations d'assurance-emploi en fonction de l'information sur l'exactitude des paiements.

Contexte et autres observations

2.7 Près d'un Canadien sur trois est un client de DRHC. Chaque année, le Ministère traite entre 60 millions et 80 millions de demandes relatives aux programmes, envoie environ 100 millions de lettres et verse plus de 50 milliards de dollars en prestations diverses. La plupart des programmes et des services sont offerts au niveau local par l'un des plus importants réseaux de prestation de services du gouvernement fédéral. Ce réseau comprend 320 centres de ressources humaines du Canada, 5 000 kiosques libre-service, 21 centres de services téléphoniques et dix centres de traitement du courrier. Près de 80 p. 100 des quelque 21 000 employés de DRHC travaillent au niveau local.

2.8 Afin d'assurer l'amélioration continue de la qualité du service, les gestionnaires doivent obtenir une plus grande rétroaction des clients au niveau local, par exemple en enquêtant sur la satisfaction des clients et en analysant les plaintes qu'ils formulent. Il n'y a aucune politique de traitement des plaintes relatives au Programme d'assurance-emploi et aux Programmes de la sécurité du revenu. Précisons toutefois que les responsables des Programmes de la sécurité du revenu ont commencé à élaborer une telle politique.

2.9 Le Ministère ne dispose pas de l'information sur les coûts dont il a besoin pour gérer le compromis à faire entre le coût de ses principaux services et leur qualité. Nous croyons qu'il doit s'efforcer d'élaborer et de mettre en oeuvre, au niveau local, des plans d'action axés sur l'amélioration continue de la qualité du service.

Les réponses du Ministère à nos recommandations sont présentées dans le chapitre. En général, le Ministère est d'accord avec les recommandations et il indique les mesures qu'il prend ou qu'il prévoit prendre pour les mettre en oeuvre.

Citoyenneté et Immigration Canada

Le volet économique du programme canadien d'immigration

Chapitre 3 – Points saillants

3.1 Nous avons remarqué de graves lacunes dans la gestion et l'exécution du volet économique du Programme canadien d'immigration qui vise à recruter des personnes hautement qualifiées qui peuvent rapidement contribuer à notre économie et s'adapter à notre société. Ces lacunes limitent de façon importante la capacité du Canada à maximiser les avantages économiques et sociaux que procure l'immigration et à protéger l'intégrité de son programme d'immigration.

3.2 Nous avons constaté que les bureaux d'immigration à l'étranger ne suffisent pas à la tâche. Ils éprouvent beaucoup de difficultés à assumer la charge de travail et les responsabilités qui leur sont assignées. Les niveaux d'immigration que le gouvernement a établis ne sont pas respectés et les requérants attendent de plus en plus longtemps avant que leur demande ne soit finalisée, parfois plus de trois ans.

3.3 Nous avons noté des lacunes qui exposent Citoyenneté et Immigration Canada à des critiques quant à la qualité et à l'uniformité des décisions prises dans le cadre des activités de sélection des immigrants. Les agents des visas ont besoin de meilleurs critères de sélection, d'une meilleure formation et de meilleurs outils pour évaluer plus efficacement les demandes d'immigration. En outre, la qualité de leurs décisions ne fait pas l'objet d'une surveillance suffisante de la part du Ministère. Nous avons relevé des écarts importants dans les taux d'acceptation entre les agents ayant des cas similaires à traiter.

3.4 Notre vérification a permis de cerner des faiblesses importantes dans la gestion des évaluations médicales des immigrants éventuels. Depuis notre dernière vérification en 1990, le Ministère et Santé Canada ont été incapables de prendre position sur la question suivante, à savoir s'il est nécessaire de modifier les normes en matière d'examens médicaux, lesquelles servent à déterminer si un requérant représente un danger pour la santé et la sécurité publiques ou pourrait engendrer un fardeau excessif pour le système de soins de santé ou les services sociaux. On exige les mêmes examens de routine depuis 40 ans et les ministères n'ont pas décidé si les requérants devaient subir systématiquement des tests pour des maladies infectieuses autres que la syphilis et la tuberculose. Nous sommes aussi très préoccupés par le manque de rigueur et d'uniformité de la gestion globale des activités d'évaluation médicale, y compris les pratiques entourant la supervision des médecins locaux désignés qui effectuent à l'étranger les examens médicaux des immigrants éventuels.

3.5 Il y a de sérieuses entraves à la détermination de l'admissibilité des immigrants éventuels sur le plan de la criminalité et de la sécurité. Les agents des visas disposent de peu d'information et de soutien pour s'assurer que les demandeurs ne sont pas des personnes susceptibles de s'engager dans des activités criminelles ou de menacer la sécurité des Canadiens. Certaines personnes sont ainsi admises au Canada sans que l'on ait l'assurance raisonnable qu'elles n'ont pas commis d'actes criminels à l'étranger, ne se sont pas livrées à l'espionnage, à la subversion ou au terrorisme, ou n'ont pas de liens avec le crime organisé.

3.6 Le Ministère est très vulnérable à la fraude et à l'abus. Il n'a aucune mesure efficace en place pour décourager les personnes de soumettre des demandes frauduleuses, et les méthodes de détection qu'utilisent les agents des visas sont coûteuses. De plus, nous avons constaté que les contrôles des recettes, des formulaires de visas et des systèmes informatiques sont insuffisants.

3.7 Les employés responsables du traitement des demandes d'immigration dans les bureaux à l'étranger sont très inquiets de la situation actuelle. Ils ont non seulement le sentiment d'agir à l'encontre de leurs propres valeurs mais de prendre des décisions qui pourraient comporter des risques trop élevés et entraîner des coûts importants pour la société canadienne.

3.8 De façon générale, il y a lieu de s'interroger sérieusement, à savoir si le Ministère a les ressources et la capacité opérationnelle requises pour accomplir les tâches nécessaires à l'atteinte des niveaux annuels d'immigration établis par le gouvernement.

Contexte et autres observations

3.9 Citoyenneté et Immigration Canada est responsable, entre autres, d'établir la politique sur l'immigration, de sélectionner les immigrants et d'évaluer les demandes des visiteurs à l'étranger. Il protège également la santé et la sécurité des Canadiens en interceptant et en renvoyant dans leur pays d'origine les personnes qui n'ont pas le droit d'entrer ou de demeurer au Canada.

3.10 En 1999, environ 190 000 immigrants ont été admis au Canada. Le Programme d'immigration est composé de quatre grands volets : la famille, le volet économique, les réfugiés et les autres. Notre vérification a porté sur le volet économique qui compte pour 56 p.100 des immigrants admis chaque année. Ce volet vise à recruter des travailleurs qualifiés et des gens d'affaires.

3.11 La prestation des services d'immigration à l'étranger se fait par le biais d'un réseau complexe de 81 bureaux situés dans les ambassades, les hauts-commissariats et les consulats canadiens. Un personnel composé d'environ 210 agents canadiens et de 980 employés locaux y travaille et y traite, chaque année, un grand nombre de visas d'immigrant, de visas de visiteur et d'autorisations d'études et d'emploi temporaire. Plusieurs autres ministères et organismes fédéraux contribuent à l'atteinte des objectifs du Programme d'immigration, y compris le ministère des Affaires étrangères et du Commerce international, le Service canadien du renseignement de sécurité, la Gendarmerie royale du Canada et Santé Canada.

3.12 Il est décevant de constater la similitude entre plusieurs des lacunes relevées dans le présent chapitre et celles dont nous avions fait état en 1990. Au cours des années, le gouvernement et le Ministère ont entrepris plusieurs initiatives pour corriger la situation, mais sans grands résultats.

3.13 Cette situation requiert une attention immédiate à la fois du Ministère et du gouvernement. D'une part, le Ministère doit améliorer l'efficience du traitement des demandes d'immigration. Les bureaux à l'étranger croulent sous la paperasserie et la désuétude de leur technologie constitue un obstacle sérieux à l'amélioration du rendement. Le Ministère a besoin d'une bien meilleure information sur les ressources requises pour lui permettre d'assumer ses responsabilités en matière de traitement des demandes d'immigration. D'autre part, un investissement important de ressources peut être nécessaire pour combler les lacunes que nous avons observées et permettre au Ministère de réaliser les gains d'efficience possibles que nous avons relevés. Il est particulièrement essentiel que, lors de l'établissement des niveaux d'immigration annuels, le gouvernement s'assure de maintenir un équilibre approprié entre les ressources allouées au Ministère et à ses partenaires fédéraux et la charge de travail que représente l'exécution des tâches requises pour les atteindre.

3.14 La révision de la *Loi sur l'immigration* que le Ministère entreprend présentement offre une excellente occasion de combler certaines des lacunes. Toutefois, le défi pour le gouvernement et le Ministère est énorme et complexe. Étant donné que le Parlement a manifesté un intérêt particulier à l'égard du Programme, en exigeant la présentation d'un plan annuel d'immigration, nous encourageons les parlementaires à surveiller de près la situation.

Le chapitre présente les réponses de Citoyenneté et Immigration Canada, de Santé Canada, de la Gendarmerie royale du Canada, du Service canadien du renseignement de sécurité et du ministère des Affaires étrangères et du Commerce international. Ils acceptent nos recommandations et notent que des initiatives sont actuellement en cours dans plusieurs secteurs.

Affaires indiennes et du Nord Canada

L'enseignement primaire et secondaire

Chapitre 4 – Points saillants

4.1 Affaires indiennes et du Nord Canada ne peut démontrer qu'il atteint l'objectif qu'il s'est fixé, à savoir aider les élèves membres d'une Première nation qui vivent dans une réserve à répondre à leurs besoins et à leurs aspirations en matière d'éducation. Par exemple, le Ministère n'a pas l'assurance dont il a besoin que les élèves membres d'une Première nation reçoivent une éducation convenable sur le plan culturel. De plus, les progrès accomplis pour combler l'écart en matière de scolarisation qui touche les élèves indiens vivant dans les réserves ont été lents à un point inacceptable. Au rythme où les progrès sont réalisés actuellement, il faudra plus de 20 ans pour que leur niveau de scolarisation atteigne celui des autres Canadiens.

4.2 Pour obtenir cette assurance et bien s'acquitter de ses responsabilités, le Ministère doit régler plusieurs questions importantes, notamment définir son rôle en matière d'éducation, élaborer et utiliser des mesures de rendement adéquates, et améliorer son rendement opérationnel. Tout en s'attaquant à ces questions, le Ministère devra davantage tenir compte des besoins culturels et particuliers des élèves indiens, de même que des facteurs socio-économiques qui peuvent influer sur la réussite scolaire.

4.3 Cette situation est complexe et nécessite une solution rapide. L'urgence augmentera à mesure que les exigences s'accentueront en matière d'éducation par suite de l'accroissement de la population dans les réserves, des changements technologiques et de la modification des programmes provinciaux d'enseignement, sur lesquels se fie le Ministère. Même si celui-ci a cerné ou amorcé plusieurs projets de réforme de l'éducation, il lui reste toujours à prendre les mesures importantes qui permettront de régler ces questions.

Contexte et autres observations

4.4 Le Ministère est habilité à jouer un rôle actif dans la prestation de l'enseignement primaire et secondaire des enfants indiens vivant dans les réserves. Même s'il a choisi de se fier aux Premières nations et aux provinces pour la conception et la prestation d'une éducation appropriée, il reconnaît que cette approche ne diminue pas sa responsabilité et son obligation de rendre des comptes.

4.5 Pendant plus d'un siècle, des lois, des traités avec les Indiens et des politiques gouvernementales ont façonné le mandat et les responsabilités des Affaires indiennes et du Nord Canada en matière d'éducation.

4.6 En ce moment, quelque 117 000 élèves inscrits aux écoles primaires et secondaires vivent dans une réserve. Les coûts budgétés actuels, sans compter les coûts de construction et d'entretien des écoles, s'élèvent à environ un milliard de dollars par année.

Affaires indiennes et du Nord Canada reconnaît l'importance des questions soulevées dans le présent chapitre. Il est d'avis que l'initiative Rassembler nos forces : Le Plan d'action du Canada pour les questions autochtones, ainsi que d'autres projets prévus en éducation auxquels il participe avec les Premières nations et les gouvernements provinciaux, aideront à combler l'écart en matière de scolarisation dont fait état ce chapitre.

Agence des douanes et du revenu du Canada

Les voyageurs arrivant au Canada : la gestion des risques aux points d'entrée

Chapitre 5 – Points saillants

5.1 L'Agence des douanes et du revenu du Canada déploie beaucoup d'efforts pour moderniser ses opérations douanières et utiliser plus efficacement les technologies existantes. Cependant, nous avons constaté que plusieurs améliorations importantes s'imposaient.

5.2 Une stratégie claire et complète d'observation de la loi et des règlements est un élément essentiel de promotion de cette observation. Les douanes n'ont pas encore de stratégie globale d'observation décrivant clairement leurs plans pour encourager l'observation volontaire, ainsi que leur approche en vue d'une exécution responsable.

5.3 Nous avons constaté que l'évaluation des risques était incomplète : les douanes ne disposent pas de l'information importante nécessaire provenant de plusieurs ministères et organismes, pour évaluer pleinement les risques auxquels leurs inspecteurs sont confrontés. Il faut qu'elles déterminent les secteurs où les risques sont les plus élevés afin d'établir la meilleure façon de les contrôler. Nous avons recommandé que les douanes mettent plus d'empressement à obtenir une description précise des risques qu'elles doivent assumer, aux divers bureaux d'entrée, en raison des responsabilités qu'elles doivent y exercer au nom d'autres ministères — par exemple, au nom de Citoyenneté et Immigration Canada, de Santé Canada et de l'Agence canadienne d'inspection des aliments — et qu'elles utilisent les données ainsi obtenues pour faire une évaluation nationale des risques. Il leur faut également établir avec ces ministères un protocole d'entente à jour qui décrit les responsabilités et les rôles de chacun.

5.4 Nous avons également constaté que les inspecteurs des douanes à la frontière et dans les aéroports ont besoin d'être mieux équipés pour effectuer le travail complexe qui leur est confié. Ils doivent faire appliquer les lois et règlements sur les douanes et l'accise et prendre des décisions de tout ordre pour de nombreux autres ministères. Lors du traitement des voyageurs, les inspecteurs des douanes doivent prendre très rapidement des décisions. Les douanes possèdent de l'information, des systèmes et des programmes de formation pour aider leurs agents, mais l'information n'est pas communiquée uniformément, les systèmes doivent être améliorés et la formation est inégale.

Contexte et autres observations

5.5 En 1998-1999, le programme des douanes de l'Agence des douanes et du revenu du Canada a permis de traiter plus de 104 millions de voyageurs arrivant au Canada aux points ou bureaux d'entrée. Environ la moitié d'entre eux étaient des résidants du Canada qui revenaient au pays. La plupart des voyageurs entrent au Canada par transport routier en provenance des États-Unis (79 p. 100) ou par transport aérien (17 p. 100). Depuis 1991-1992, le nombre de voyageurs arrivant par la route a diminué, tandis que le nombre de voyageurs aériens a crû de près de 48 p. 100, en partie en raison de l'Accord Canada-États-Unis sur l'ouverture des espaces aériens.

5.6 Au fil des ans, le rôle des douanes a évolué. Autrefois, elles s'occupaient surtout de percevoir des recettes; désormais elles ont pour rôle de faciliter l'entrée des voyageurs et des marchandises, de protéger la société canadienne et de promouvoir la compétitivité des entreprises canadiennes.

5.7 Les douanes fonctionnent dans un environnement qui continue d'évoluer. Pour faire face à ce changement, elles ont préparé en 1990 et en 1998 des documents d'étude qui servent de schéma directeur pour préciser leur orientation future et les initiatives à prendre dans ce contexte. Les douanes ont franchi des étapes importantes pour atteindre les objectifs qu'elles s'étaient fixés en 1990. Elles viennent de diffuser un projet de plan d'action quinquennal pour la mise en oeuvre des initiatives exposées dans le document d'étude de 1998.

Les réponses de l'Agence des douanes et du revenu du Canada sont intégrées au présent chapitre. L'Agence est d'accord avec nos sept recommandations et ses réponses présentent un certain nombre de mesures visant à leur donner suite.

Agence des douanes et du revenu du Canada et ministère des Finances

Le traitement des demandes de crédit d'impôt pour la recherche scientifique et le développement expérimental

Chapitre 6 – Points saillants

6.1 En 1994, le gouvernement a restreint le délai pour présenter une demande de crédit d'impôt pour la recherche scientifique et le développement expérimental (RS&DE) aux 18 mois suivant l'année au cours de laquelle les contribuables ont engagé les dépenses. L'Agence des douanes et du revenu du Canada (l'Agence ou l'ADRC) a alors reçu 16 000 demandes supplémentaires, qui représentaient 2,8 milliards de dollars en crédits d'impôt pour les années d'imposition remontant jusqu'à 1985.

6.2 Notre vérification a révélé que le traitement de ces demandes a manqué de cohérence à plusieurs égards. Ces manques de cohérence ont compromis l'équité du processus d'examen. De plus, il y a eu de graves divergences d'opinions au sein de l'Agence quant à la façon dont il convenait de régler un différend avec un demandeur au sujet d'une demande importante. L'Agence n'a pas su montrer qu'elle avait des mécanismes efficaces pour résoudre de telles divergences d'opinions entre ses agents pour des cas particuliers.

6.3 Le manque de clarté quant aux projets admissibles s'est traduit par un certain nombre de demandes non résolues, remontant jusqu'à 1985. Les crédits d'impôt correspondants s'élèvent à des centaines de millions de dollars. Depuis la création du programme de RS&DE, il y a des désaccords entre demandeurs et administrateurs ainsi qu'entre administrateurs sur ce qui constitue une activité ou un projet admissible, sur le degré de rigueur avec lequel un agent scientifique doit examiner une demande et sur l'étendue de la documentation qui doit être présentée à l'appui des demandes. Il faut au plus tôt adopter des règles plus claires afin que le programme soit exécuté et administré avec efficacité et efficience.

6.4 L'Agence a reconnu la nécessité d'améliorer l'administration du programme. À cette fin, en novembre 1998, après avoir consulté les intéressés, le ministre du Revenu national a publié un plan d'action. L'Agence a créé une nouvelle direction chargée du programme et elle a nommé un nouveau chef pour cette direction.

6.5 Selon notre vérification, l'Agence devrait améliorer l'évaluation du risque que les demandes des contribuables ne soient pas admissibles afin que le personnel scientifique et les vérificateurs puissent concentrer leurs efforts sur celles qui comportent les risques les plus élevés. L'Agence gère le risque d'inadmissibilité en effectuant des contrôles de la complétude, des évaluations du risque, des vérifications et des examens scientifiques.

6.6 Il se peut qu'une évaluation effectuée par le ministère des Finances et par l'Agence ait surestimé les dépenses supplémentaires au titre de la RS&DE générées par le programme. Selon cette évaluation, le programme de la RS&DE aurait entraîné une augmentation nette du revenu réel du Canada de 20 millions de dollars à 55 millions de dollars par année.

Contexte et autres observations

6.7 Le gouvernement fédéral favorise la recherche-développement dans le secteur privé au moyen d'encouragements ou stimulants fiscaux. Les contribuables reçoivent des crédits d'impôt après avoir engagé des dépenses pour leurs projets.

6.8 Selon les systèmes d'information de l'Agence, environ 11 000 sociétés et particuliers ont déclaré plus de 10 milliards de dollars en dépenses de RS&DE pour 1997, demandant ainsi des crédits d'impôt de quelque deux milliards de dollars. Les grandes sociétés ont déclaré 85 p. 100 de ces dépenses.

6.9 Un personnel comptant 144 conseillers scientifiques et 268 vérificateurs des comptes examine les demandes dans 37 bureaux des services fiscaux, partout au Canada. Les conseillers déterminent si les travaux sont admissibles dans le cadre du programme, tandis que les vérificateurs examinent les coûts qui sont déclarés afin de déterminer s'ils sont admissibles.

6.10 Un objectif clé du plan d'action de l'Agence pour 1998 était de réduire l'incertitude quant à l'admissibilité des projets scientifiques. Par conséquent, l'Agence et le secteur privé ont proposé une définition de ce qu'est un projet de RS&DE admissible qui, à notre avis, modifie l'étendue des dépenses et des travaux de RS&DE admissibles et pourrait se traduire par des coûts supplémentaires en crédits d'impôt. Toute modification importante apportée à la définition d'un projet admissible devrait être revue par le ministère des Finances qui doit répondre des coûts du programme, de ses objectifs en matière de politique et des dispositions législatives connexes.

Les réponses de l'Agence des douanes et du revenu du Canada et du ministère des Finances sont incluses dans le chapitre. Ces réponses décrivent les mesures qui ont été et qui seront prises pour donner suite à nos recommandations.

Gendarmerie royale du Canada

Les services offerts aux responsables de l'application de la loi

Chapitre 7 – Points saillants

7.1 Le niveau de service que la Gendarmerie royale du Canada (GRC) offre aux responsables de l'application de la loi ne répond pas aux besoins de cette clientèle. Par exemple, le Centre d'information de la police canadienne, un système d'une importance capitale qui fournit des renseignements aux policiers, aux tribunaux, aux établissements correctionnels et aux agents de libération conditionnelle, était inaccessible 11 p. 100 du temps l'an dernier, à l'échelle régionale ou nationale. Les analyses d'empreintes génétiques (analyses de l'ADN) prennent trop de temps et ne sont utilisées que dans les cas les plus graves. On ne tire donc pas pleinement profit de cette technique pour le renforcement de la sécurité publique. Les casiers judiciaires et les dossiers d'empreintes digitales dont il faut assurer la saisie dans les banques de données s'accumulent : l'arriéré peut aller jusqu'à deux mois. Par conséquent, les dossiers auxquels ont accès les forces policières et autres intervenants ne sont pas à jour. En outre, les vérifications de casier judiciaire demandées par des employeurs ou des organismes bénévoles prennent trop de temps.

7.2 Il est essentiel que la haute direction de la GRC prenne des mesures propres à éliminer l'arriéré dont font état un grand nombre des services et à améliorer leur efficience. La GRC doit, en particulier, rationaliser le nombre de ses laboratoires en vue de rehausser leur niveau de service. Elle doit par ailleurs améliorer de façon marquée ses systèmes de mesure du rendement et de communication des résultats. Il est important que les usagers, la haute direction de la GRC et les membres du Parlement soient mis au courant de ces résultats.

7.3 Il faut repenser les dispositions prises en 1966 par le gouvernement fédéral et les provinces pour la prestation des services offerts aux responsables de l'application de la loi. Il est temps d'établir une entente parfaitement claire entre tous ces responsables — que ce soit au fédéral, au provincial ou au municipal — sur le niveau de service, les dispositions de financement, la contribution des usagers, la gestion et la reddition de comptes. Cette nouvelle entente exigera la collaboration de toutes les parties.

Contexte et autres observations

7.4 La GRC fournit une gamme de services essentiels aux responsables de l'application de la loi au Canada : la police, les tribunaux, les prisons et les commissions de libération conditionnelle. Ces services comprennent l'identification dactyloscopique, les casiers judiciaires, les laboratoires judiciaires, les renseignements criminels et l'accès en direct à des banques de données comme celles de l'immatriculation des véhicules, des permis de conduire, des personnes recherchées et des biens volés. En 1998-1999, la GRC a dépensé environ 122 millions de dollars pour la prestation de ces services.

7.5 Il existe un certain nombre de secteurs où il convient de louer la GRC pour la bonne gestion de ses services : elle a réussi à garder fonctionnel l'ancien système d'information du Centre d'information de la police canadienne pendant qu'elle attendait un nouveau système; elle a mis en application de nouvelles techniques judiciaires telles que l'analyse de l'ADN; elle est en train d'élaborer une banque de données d'empreintes génétiques; et elle a apporté des améliorations substantielles à ses systèmes d'identification dactyloscopique et de casiers judiciaires.

7.6 Notre dernière vérification des services offerts aux responsables de l'application de la loi date de 1990. Nous avons fait alors un certain nombre de recommandations visant à améliorer l'économie et l'efficience des opérations. Bon nombre de nos recommandations n'ont été prises en considération que tout récemment; d'autres ont été laissées pour compte. Les services nationaux de la GRC ont été, au cours de la dernière décennie, examinés à diverses reprises par Solliciteur général Canada, le Secrétariat du Conseil du Trésor et la GRC elle-même.

La GRC est d'accord avec les constatations et indique qu'elle prendra des mesures pour remédier aux problèmes.

Ministère des Finances

La gestion de la dette du Canada : les nouveaux défis à relever

Chapitre 8 – Points saillants

8.1 Le programme de gestion de la dette du Canada est une activité bien gérée dans l'ensemble. Cependant, à l'instar de tout programme, il faut l'adapter à l'évolution de son environnement. Nous avons constaté trois secteurs où le ministère des Finances doit revoir ses pratiques. Il doit notamment :

- établir un éventail plus complet de mesures du rendement pour garantir qu'il possède une base fiable pour évaluer la mesure dans laquelle le programme atteint ses objectifs. À l'heure actuelle, le Ministère se sert d'un éventail de données à l'interne, mais il rend compte de son rendement pour un seul objectif, soit le ratio de la dette à taux fixe à la dette totale, maintenant aux deux tiers;
- améliorer la transparence pour assurer la reddition de comptes au public non seulement des avantages, mais également des coûts des décisions portant sur tous les aspects de la gestion de la dette. Au cours des dernières années, le gouvernement a augmenté considérablement la part de la dette à taux fixe et le niveau des réserves de liquidités internationales, et il a établi des objectifs pour les titres au détail — mais sans divulguer les coûts prévus de ces décisions;
- modifier la gestion de la planification stratégique en consultant un éventail de spécialistes de l'extérieur pour avoir l'assurance d'obtenir des conseils complets et indépendants.

Contexte et autres observations

8.2 À la fin de 1998-1999, la dette portant intérêt du Canada s'établissait à 595 milliards de dollars et les frais d'intérêt annuels, à 41,4 milliards de dollars. La gestion de la dette est la responsabilité du ministère des Finances, en collaboration avec la Banque du Canada et Placements Épargne Canada.

8.3 Le principal objectif du programme de gestion de la dette est de fournir à l'État un financement stable, à faible coût, tout en maintenant la liquidité des marchés nationaux pour cette dette. Un autre objectif est de garantir l'existence de réserves suffisantes dans le Compte du fonds des changes pour atténuer la volatilité du taux de change sur le dollar canadien.

8.4 Nous avons constaté que le groupe de personnes qui gèrent ce programme sont fort dévouées. Elles surveillent étroitement l'évolution de la situation financière et économique qui pourrait influer sur les activités de gestion de la dette et elles consultent régulièrement les opérateurs des marchés financiers. Elles se servent de techniques de modélisation de pointe pour déterminer les risques que pose la gestion de la dette et choisir des stratégies appropriées à cet égard.

8.5 Notre vérification a porté sur la façon dont les gestionnaires de la dette mesurent le rendement, sur l'information qu'ils communiquent et sur la régie du programme, plutôt que sur les choix qu'ils font ou les analyses qui justifient ces choix.

8.6 Au cours des dernières années, le gouvernement a pris d'importantes décisions concernant la gestion de la dette fédérale. Il a augmenté la part de la dette à taux fixe à plus long terme pour la porter aux deux tiers de la dette totale, ce qui représente quelque 18 p. 100 de plus qu'il y a trois ans. Si des titres à taux fixe à plus long terme rendent les coûts de l'intérêt plus prévisibles et réduisent le risque de refinancement, ils sont généralement plus coûteux, car les taux d'intérêt à long terme sont normalement plus élevés que les taux d'intérêt à court terme.

8.7 Au cours de la même période de trois ans, les réserves de liquidités internationales du Canada ont plus que doublé, pour s'établir à 25 milliards de dollars US. Un niveau élevé de réserves de liquidités internationales améliore la capacité du gouvernement de favoriser la stabilité de la valeur du dollar canadien et fournit également un large réservoir de fonds qui peuvent être utilisés pour financer les besoins imprévus. Cependant, il y a un coût à cela, car l'intérêt payé sur les emprunts en devises étrangères est généralement plus élevé que l'intérêt gagné sur les actifs en devises.

8.8 Nous avons examiné également la vente des titres au détail — les obligations d'épargne du Canada et les obligations à prime du Canada. Nous avons remarqué que, malgré les efforts de marketing déployés récemment pour ces obligations et la création d'un organisme de service spécial pour les commercialiser de façon dynamique, rien ne prouve de façon concluante que le programme des titres au détail est rentable. Nous encourageons le gouvernement à réexaminer le rôle du programme des titres au détail et ses répercussions sur les coûts. Nous l'encourageons également à communiquer les résultats de cet examen lorsqu'il l'aura réalisé.

Les réponses du Ministère à nos recommandations sont incluses dans le chapitre. Le Ministère accepte l'esprit de nos recommandations, en majeure partie, et indique comment il compte y répondre.

La rationalisation du régime de gestion des ressources humaines

Une étude de l'évolution des rôles et des responsabilités

Chapitre 9 – Points saillants

9.1 Nous avons réalisé cette étude pour attirer l'attention du Parlement sur l'urgence de régler des problèmes de longue date et de s'attaquer aux nouveaux défis liés à la gestion des ressources humaines dans la fonction publique.

9.2 Le cadre actuel qui régit la gestion des ressources humaines dans le « noyau » de la fonction publique est dépassé et indûment complexe. Les systèmes administratifs sont lourds, coûteux et désuets. Ce cadre ne convient pas à un environnement qui exige souplesse et adaptabilité et qui est confronté à des défis majeurs en matière de gestion des ressources humaines et à un marché du travail de plus en plus concurrentiel.

9.3 La dotation dans la fonction publique est une source importante de frustration tant pour les gestionnaires que pour les employés. Le système, axé sur les règles, est inefficient. Les gestionnaires doivent posséder plus de pouvoirs en matière de dotation, mais ils doivent également être tenus de rendre compte de leurs décisions, et ce, de façon plus claire. Les intérêts des employés doivent être respectés, mais il est urgent de moderniser et de rationaliser le système de dotation et les mécanismes de recours connexes.

9.4 Depuis longtemps, on s'inquiète au sujet de la « responsabilité éparpillée » en matière de gestion des ressources humaines. La responsabilité et l'obligation de rendre compte des changements nécessaires pour simplifier, rationaliser et renforcer le régime actuel de gestion des ressources humaines doivent être clairement attribuées et appuyées adéquatement. Cela est particulièrement important dans les domaines où la responsabilité est divisée.

- Dans la gestion des ressources humaines, les sous-ministres — les dirigeants des principales organisations du gouvernement — sont considérés comme étant responsables avant tout de l'administration d'un cadre prescrit par les organismes centraux. Le rôle des sous-ministres doit évoluer de façon importante. Ils doivent être les principaux responsables de l'établissement et du maintien d'un milieu de travail sain dans leurs ministères et leurs responsabilités à l'égard de la gestion des ressources humaines doivent être énoncées officiellement. Les sous-ministres doivent être tenus de rendre compte de la façon dont leurs ministères s'acquittent de ces responsabilités, et ce, de façon claire.
- La Commission de la fonction publique doit engager un dialogue avec le Parlement sur les changements à apporter à ses activités et à la façon de s'acquitter de ses responsabilités pour assurer la protection du principe du mérite. Ce dialogue doit porter sur la nécessité d'une réforme législative de la dotation. La Commission doit aussi améliorer l'information communiquée sur le rendement des ministères quant au respect des dispositions et des principes de la *Loi sur l'emploi dans la fonction publique*.
- Le Conseil du Trésor doit améliorer l'information qu'il communique au Parlement sur les aspects de la gestion des ressources humaines dont il est responsable. De plus, il faut préciser la responsabilité des sous-ministres quant à l'information communiquée sur la qualité et l'efficacité de la gestion des ressources humaines de leurs ministères.

Contexte et autres observations

9.5 Le « noyau » de la fonction publique est maintenant beaucoup plus petit qu'il ne l'a été depuis le début des années 1970. Au cours des dix dernières années, il a diminué de près de 100 000 employés et comptait quelque 143 000 employés à la fin de 1999. La réduction des effectifs, la dévolution, la privatisation, le recrutement limité et d'autres mesures ont contribué à cette diminution. Plus de 50 000 fonctionnaires ont quitté le « noyau » de la fonction publique (dont le Conseil du Trésor est l'employeur) pour des « employeurs distincts » comme l'Agence des douanes et du revenu du Canada.

9.6 Les travailleurs du savoir représentent maintenant 55 p. 100 des fonctionnaires (en hausse par rapport à 33 p. 100 il y a 15 ans). Ils nourrissent de nouvelles attentes à l'égard du milieu de travail, qui rendent les changements encore plus nécessaires.

9.7 Le pourcentage des fonctionnaires âgés de 45 à 54 ans a pratiquement doublé au cours des 14 dernières années. En outre, d'ici une dizaine d'années, 70 p. 100 des hauts fonctionnaires seront admissibles à la retraite. Cela laisse présager une crise du leadership. De plus, les jeunes sont sous-représentés : le pourcentage des fonctionnaires de moins de 35 ans est à peu près la moitié de celui de la main-d'oeuvre canadienne.

9.8 En 1996, le Secrétariat du Conseil du Trésor estimait qu'il existait 840 taux de rémunération distincts et 70 000 règles régissant la paie et les avantages sociaux. En 1997, les manuels du personnel et d'administration de la paie du Conseil du Trésor comptaient plus de 12 000 pages d'instructions. Il faut 119 jours civils en moyenne pour mener à terme un concours interne dans le « noyau » de la fonction publique, sans compter le temps de traitement des appels. C'est à peu près deux fois plus que le temps qu'il n'en faut dans certaines organisations quasi publiques, selon celles-ci. Pour un nouveau poste qui doit être classifié, la dotation exige 230 jours civils en moyenne — près de huit mois.

Dans sa réponse commune, le gouvernement convient de la nécessité d'un cadre solide pour la gestion des ressources humaines et de l'importance d'une fonction publique saine. Il est plus optimiste que le vérificateur général face à certaines questions et fait mention de récentes initiatives visant à régler certains problèmes. Dans sa réponse complémentaire, la Commission de la fonction publique a indiqué qu'elle poursuivait ses efforts pour améliorer les systèmes de dotation et pour amorcer un dialogue avec le Parlement.

Transports Canada

Les cessions d'aéroports : le Réseau national d'aéroports

Chapitre 10 – Points saillants

10.1 Au cours de notre vérification, nous avons examiné la façon dont Transports Canada a procédé pour céder les aéroports les plus grands et les plus achalandés du Canada entre 1992 et 1999. Ces aéroports constituent le Réseau national d'aéroports du Canada. Aux termes des conventions de cession, Transports Canada demeure propriétaire des aéroports qu'il cède à bail à des organismes appelés administrations aéroportuaires auxquelles il a confié la gestion, l'exploitation et le développement de ces aéroports. Nous nous sommes concentrés sur les aspects financiers et de surveillance des aéroports cédés du Réseau national d'aéroports (RNA) et non sur la sûreté et la sécurité.

10.2 Nous avons trouvé de nombreux points faibles non négligeables dans les pratiques de gestion. Voici quelques-unes de nos plus importantes observations :

- Avant de commencer à négocier les baux pour chaque aéroport cédé de la deuxième série de cessions, et à renégocier d'autres baux, Transports Canada n'a pas déterminé la juste valeur marchande des éléments d'actif ni les possibilités d'affaires des aéroports qu'il cédait. Cette information est fondamentale pour la négociation et la renégociation des baux et, à notre avis, le fait qu'il n'y en ait pas représente un écart évident par rapport aux bonnes pratiques de gestion. La qualité des renseignements nécessaires pour prendre des décisions sur certains aspects comme le loyer s'en trouve donc grandement affaiblie.

- Le Ministère a renégocié quatre baux au coût, pour le gouvernement, d'environ 474 millions de dollars sous forme d'abandon de loyer (valeur actuelle nette de 342 millions de dollars). Les ententes renégociées ne sont pas conformes à certaines directives clés du gouvernement. De plus, Transports Canada ne peut démontrer en quoi les ententes pour tous les aéroports cédés sont équitables, uniformes, cohérentes et justes l'une par rapport à l'autre, comme le gouvernement l'a prescrit.

- Par suite des renégociations, le gouvernement a, de fait, convenu de réduire les futurs revenus de l'État et de financer de grands projets d'immobilisations. L'information présentée au Parlement sur le loyer cédé et le financement de projets d'immobilisations était fragmentaire, incomplète et, certaines années, inexistante.

- De 1992 à 1999, le gouvernement a continué de fournir une aide financière à la plupart des aéroports cédés. Il a fourni aux administrations aéroportuaires une somme totale de 360 millions de dollars, dont 118 millions de dollars sous forme de crédits de loyer à l'Aéroport international Lester-B.-Pearson de Toronto pour contribuer à la réalisation d'un certain nombre de projets de rénovation. Le gouvernement a touché en revenus locatifs un montant total net de 593 millions de dollars des administrations aéroportuaires au cours de cette période.

- Ainsi qu'ils avaient été évalués par les experts-conseils du Ministère, les résultats financiers préliminaires ont révélé que, cinq ans après la cession des quatre premiers aéroports en 1992, la situation financière la plus probable du gouvernement variait grandement à la suite de chaque cession — d'une situation meilleure à une situation « moins avantageuse ». Bien que l'évaluation ait été terminée — dans le cadre de trois études distinctes ayant coûté en tout 680 000 $ — un an avant la fin de notre vérification, nous avons constaté que le Conseil du Trésor et le Cabinet n'en avaient pas encore vu les résultats. Le Ministère n'a pas encore effectué une telle évaluation pour tout autre aéroport cédé du RNA.

- Nous nous soucions du fait que Transports Canada, dans les huit années du processus de cession, n'a pas défini clairement son rôle en tant que locateur et surveillant du Réseau national d'aéroports. Sa façon de traiter les nouvelles questions clés comme celles qui sont liées aux frais d'améliorations aéroportuaires, aux filiales et aux marchés à fournisseur unique s'est révélée en général inadéquate et, jusqu'en 1997, il ne s'en est pratiquement pas occupé. Le Conseil du Trésor et/ou le Cabinet ont reçu peu d'informations sur ces questions et certaines de ces informations étaient incomplètes et inexactes.

Contexte et autres observations

10.3 Il y a eu deux séries de cessions des aéroports du Réseau national d'aéroports. En 1992, Transports Canada a cédé à bail quatre grands aéroports — Montréal (Dorval et Mirabel), Vancouver, Calgary et Edmonton — à quatre « administrations aéroportuaires locales » à qui il a confié la gestion et l'administration de ces aéroports. La deuxième série a débuté en 1996 par la cession de l'Aéroport international Lester-B.-Pearson de Toronto. Depuis lors, 12 autres aéroports, notamment Ottawa, Victoria, Winnipeg et Moncton, ont été cédés à des « administrations aéroportuaires canadiennes ». À la fin de notre vérification, il restait encore à céder les quatre derniers aéroports du RNA — l'Aéroport international de Gander, l'Aéroport international Jean-Lesage de Québec et les aéroports de Fredericton et de Prince George.

10.4 Bien que Transports Canada ait entamé le processus de cession des aéroports vers la fin des années 1980, et qu'il cède des aéroports à bail depuis 1992, ce n'est qu'en 1994 qu'a paru la Politique nationale des aéroports. Pour le gouvernement, les cessions étaient perçues comme un moyen de financer l'expansion de ce réseau vital qu'est le Réseau national d'aéroports, de rendre les aéroports plus concurrentiels et viables et de donner aux collectivités la marge de manœuvre nécessaire pour qu'elles les utilisent comme des outils de développement économique. Par le fait même, Transports Canada aurait la possibilité de surveiller l'ensemble du Réseau.

10.5 Transports Canada signale qu'un certain nombre d'aspects de l'initiative de cession ont été positifs et que les administrations aéroportuaires ont fait des choix stratégiques qui représentaient également des décisions opérationnelles difficiles. Il s'agit, par exemple, de l'agrandissement d'installations pour les passagers, de la libéralisation des politiques opérationnelles et du déplacement du trafic régulier d'un aéroport à un autre.

Les réponses du Ministère à nos recommandations sont incluses dans le présent chapitre. Bien qu'il soit d'accord avec la plupart de nos recommandations et expose les mesures qu'il prend ou entend prendre pour y donner suite, le Ministère a pris une position différente sur un certain nombre de questions, comme il l'exprime dans sa réponse qui suit le paragraphe 10.106.

Développement des ressources humaines Canada

Les subventions et les contributions

Chapitre 11 – Points saillants

11.1 Au cours de notre vérification, nous avons examiné quatre des programmes de subventions et de contributions qui faisaient partie de la vérification interne de 1999 de Développement des ressources humaines Canada (DRHC). Nous avons conclu qu'il y avait des lacunes généralisées au chapitre des cadres de contrôle de gestion des quatre programmes. Nos constatations, qui s'appliquaient à la période se terminant en décembre 1999, confirment celles de la vérification interne de 1999 et vont plus loin. Nous avons notamment relevé des transgressions des autorisations applicables, des paiements effectués de manière inappropriée, un contrôle très restreint des finances et des activités, et des approbations non fondées sur les procédures établies.

11.2 Souvent, les résultats visés par les projets n'étaient pas définis en termes mesurables. Et même lorsque c'était le cas (comme pour le programme Jeunes stagiaires Canada), les résultats n'étaient pas mesurés systématiquement, ce qui empêchait les gestionnaires d'obtenir les renseignements requis pour concevoir des modifications utiles et de disposer des données nécessaires à leur reddition de comptes. Ces programmes avaient fait l'objet d'une certaine évaluation. À la suite de l'évaluation de l'Initiative des partenariats sectoriels et du Fonds transitoire pour la création d'emplois, ces programmes ont subi quelques modifications. Toutefois, nous n'avons pas pu appuyer les constatations du Ministère sur l'efficacité du Fonds transitoire pour la création d'emplois.

11.3 En examinant les 37 dossiers « problématiques » identifiés aux fins de suivi par sa vérification interne, le Ministère n'a relevé que quelques cas où il était possible de recouvrer des fonds auprès des promoteurs de projet, parce que la plupart des paiements erronés étaient attribuables à des pratiques inappropriées des employés du Ministère. Bon nombre de ces pratiques ne sont pas acceptables – aller de l'avant sans les approbations requises, s'appuyer sur des contrats verbaux et rembourser des dépenses non admissibles, par exemple. La communication, par DRHC, des résultats de l'examen était centrée sur les trop-payés et fournissait peu d'information sur les problèmes décelés.

11.4 Les gestionnaires actuels de DRHC se sont engagés à régler les sérieuses faiblesses du cadre de contrôle de gestion qu'avaient signalées la vérification interne et notre vérification pour la période se terminant en décembre 1999. DRHC a planifié et mis en œuvre des mesures correctives en réponse aux problèmes relevés dans le cadre de sa vérification interne de 1999. Les mesures et les plans mis en place visent eux aussi à corriger les lacunes que nous avons cernées dans notre vérification.

11.5 Le Ministère a fait des progrès satisfaisants dans la concrétisation des engagements pris dans son Plan d'action en six points annoncé en février 2000. La direction travaille à améliorer les outils et les mesures de soutien mis à la disposition des employés afin qu'ils puissent mieux s'acquitter de leurs tâches. On travaille également à d'autres initiatives visant à étendre ou à compléter le plan d'action initial.

11.6 Pour concrétiser le profond changement systémique visé par les plans d'action, la direction de DRHC ne devra pas relâcher ses efforts ni son attention. En plus des mesures correctives déjà prises, le Ministère devra faire en sorte que l'effort extraordinaire déployé aujourd'hui devienne son mode de fonctionnement de demain et, pour cela, il devra modifier radicalement son approche quotidienne pour la prestation des subventions et des contributions. Les gestionnaires et les employés du Ministère doivent continuer de centrer leur attention sur les aspects fondamentaux du contrôle. Des normes minimales de contrôle doivent être mises en place pour tous les projets. Toutefois, le temps et les efforts à consacrer à l'examen et à l'évaluation des propositions, au suivi des progrès, à l'évaluation du rendement et à l'analyse des résultats devraient varier selon l'importance des fonds fédéraux en cause et des risques associés au projet.

11.7 DRHC a mis en place un système novateur de suivi du rendement — un système qui permet de noter les améliorations apportées à la gestion et à l'administration des subventions et des contributions. Le suivi continu du rendement et la vérification interne sont des outils essentiels pour l'évaluation des améliorations apportées au cadre de contrôle de gestion.

Contexte et autres observations

11.8 DHRC a consacré en 1999-2000 environ trois milliards de dollars à des subventions et à des contributions à verser pour des programmes, par exemple, de création d'emplois ou d'emploi des jeunes, ainsi que pour des prestations d'emploi et des mesures de soutien. Nous avons examiné en détail 4 des quelque 40 programmes de subventions et de contributions discrétionnaires offerts par DRHC : le Fonds transitoire pour la création d'emplois et le programme qui l'a remplacé, le Fonds du Canada pour la création d'emplois, Jeunes stagiaires Canada, le Programme de partenariats pour le développement social et l'Initiative des partenariats sectoriels.

11.9 Les problèmes qu'éprouve DRHC à gérer ses subventions et ses contributions se sont aggravés au cours des années 1990; des vérifications menées à la fin des années 1990 révèlent la persistance de problèmes déjà cernés. Une vérification interne menée en 1991 et le suivi effectué en 1994 n'ont donné lieu qu'à très peu de mesures correctives. La direction s'employait alors en priorité à mettre en œuvre d'importantes initiatives d'orientation de la politique et à améliorer le service offert; on n'a pas insisté suffisamment sur le maintien des contrôles essentiels dans un contexte de réduction de la bureaucratie et d'amélioration du service.

11.10 Il faut faire encore plus pour déterminer quelles sont les ressources nécessaires pour administrer les programmes de subventions et de contributions. Les plans et les mesures correctives du Ministère visent à renforcer la capacité d'exécution des programmes en donnant aux employés un soutien, une formation, des outils et des systèmes appropriés. DRHC prend également des dispositions pour recruter des employés aux niveaux correspondant à ses besoins. Le Ministère prévoit analyser la charge de travail pour s'assurer que les ressources en place sont suffisantes.

11.11 Pour les programmes que nous avons vérifiés, des renseignements généraux avaient été diffusés afin que les gens puissent en connaître l'existence. Le plus souvent, la promotion de ces programmes se faisait de façon passive et, dans le cas de certains programmes offerts au niveau local, elle variait considérablement selon la région ou le bureau responsable. L'information n'était pas toujours diffusée de manière à favoriser l'égalité d'accès aux programmes.

Le présent chapitre présente une réponse globale du Ministère et des réponses à chacune de nos recommandations.

DRHC a réagi positivement à nos constatations et à nos recommandations. Le Ministère affirme qu'il continuera de progresser au même rythme pour ce qui est de la réalisation des engagements présentés dans son plan d'action et des engagements liés à des initiatives connexes.

Les valeurs et l'éthique dans le secteur public fédéral

Chapitre 12 – Points saillants

12.1 Les Canadiens s'attendent à ce que le secteur public fédéral soit un chef de file mondial en ce qui a trait à la promotion de valeurs saines et de l'éthique au sein du gouvernement. Ces valeurs et cette éthique constituent un élément essentiel d'une saine régie publique qui respecte et appuie les valeurs démocratiques fondamentales.

12.2 Il faut engager un dialogue approfondi et soutenu avec les Canadiens et dans l'ensemble du secteur public fédéral. Nous proposons un cadre d'action comportant huit mesures prioritaires, et suggérons de commencer par les deux priorités suivantes :

- Renforcer le leadership pour ce qui est de promouvoir un comportement conforme à l'éthique, et ce, par exemple,
    - en clarifiant le principe de la responsabilité ministérielle et les responsabilités des hauts fonctionnaires;
    - en déterminant les responsabilités des gestionnaires supérieurs et hiérarchiques à l'égard de la promotion de valeurs saines et de l'éthique.
- Relancer un dialogue approfondi sur les valeurs et l'éthique, qui souligne la primauté des principes suivants : le respect de la loi, l'intérêt public et la fonction publique en tant que bien public.

12.3 Des valeurs et une éthique saines sont essentielles au maintien de la probité. Le secteur public fédéral dispose d'une solide assise au chapitre des valeurs et de l'éthique, mais cela ne devrait pas être tenu pour acquis. Le gouvernement prend actuellement une série de mesures pour préserver cette assise, mais la plupart d'entre elles sont d'une envergure restreinte ou en sont à une étape préliminaire. Pour améliorer les chances de succès, il faut que les initiatives liées aux valeurs et à l'éthique soient élaborées, mises en œuvre et surveillées avec soin, en recourant aux meilleures pratiques possibles. Le leadership des parlementaires, des ministres et des hauts fonctionnaires constitue une condition préalable au succès.

12.4 Le gouvernement fédéral doit établir un plan de mise en œuvre assorti d'échéances afin de traiter des priorités relatives aux valeurs et à l'éthique qui s'appliquent à l'ensemble du secteur public ainsi qu'aux entités fédérales. Nous continuerons de surveiller les initiatives liées aux valeurs et à l'éthique au sein du secteur public et nous continuerons de rendre compte de la situation au Parlement.

Contexte et autres observations

12.5 Notre étude portait sur les initiatives liées aux valeurs et à l'éthique qui favorisent la prise de décisions éthiques conformes à l'intérêt public. Ces initiatives constitueraient une approche exhaustive à l'égard d'une saine régie dans les entités fédérales.

12.6 Le rapport de mai 1995 que nous avons présenté au Parlement comporte un chapitre intitulé « La sensibilisation à l'éthique et à la fraude au gouvernement ». En 1996, le gouvernement a publié *De solides assises —Rapport du Groupe de travail sur les valeurs et l'éthique dans la fonction publique* (le Rapport Tait). Ces deux documents ont contribué à former un consensus sur les questions relatives aux valeurs et à l'éthique qui doivent être réglées dans la fonction publique fédérale.

12.7 Il incombe à tous les membres du secteur public fédéral et des entreprises du secteur privé, ainsi qu'aux organismes et aux particuliers qui reçoivent des fonds du secteur public ou qui font affaire avec celui-ci, de veiller à ce que les décisions prises soient conformes à l'éthique.

12.8 D'importants changements ont actuellement lieu dans la façon dont le gouvernement structure et exécute ses programmes. Parmi ces changements, mentionnons la déréglementation, la réduction de l'effectif, une délégation accrue de pouvoirs décisionnels aux fonctionnaires dans les régions, l'impartition, ainsi que la conclusion de partenariats avec le secteur privé. L'État a en outre recours à des technologies nouvelles, et son effectif devient plus mobile et diversifié. De ce fait, il se fonde de plus en plus sur de solides assises en matière de valeurs et d'éthique pour prendre des décisions qui tiennent compte de l'intérêt public.

12.9 Dans le cadre des efforts de saine gestion qui sont déployés, plusieurs ministères mettent en œuvre d'importantes initiatives en matière de valeurs et d'éthique. D'autres considèrent que l'élaboration de ce genre d'initiatives ne constitue pas une haute priorité. Nous croyons que toutes les entités devraient évaluer objectivement les questions relatives aux valeurs et à l'éthique, et en rendre compte.

Les réponses du Bureau du Conseil privé, des sous-ministres co-champions chargés de promouvoir les valeurs et l'éthique dans la fonction publique, du Secrétariat du Conseil du Trésor et du conseiller en éthique sont insérées à la fin du présent chapitre. Tous sont d'accord avec notre évaluation des initiatives en cours et ils reconnaissent qu'il y a encore beaucoup de travail à accomplir.

L'évaluation des capacités de gestion financière des ministères

Chapitre 13 – Points saillants

13.1 Nous avons évalué les capacités de gestion financière de cinq ministères par rapport aux critères établis dans le Modèle de la capacité de gestion financière qui a été publié en avril 1999. Dans chaque ministère, nous avons constaté des lacunes entre les attentes actuelles à l'égard de la gestion financière et les capacités que possèdent les ministères. Les capacités nécessaires pour répondre aux attentes actuelles sont conformes à celles que nous avons décrites dans le niveau du contrôle du Modèle de la capacité de gestion financière.

13.2 Nous avons également constaté que les ministères commencent à peine à établir les capacités nécessaires pour répondre aux exigences de la Stratégie d'information financière du gouvernement et de l'Initiative de modernisation de la fonction de contrôleur. Ces capacités sont conformes à celles décrites dans le niveau de l'information du Modèle de la capacité de gestion financière.

13.3 Si l'on se fonde sur le niveau des capacités de gestion financière des ministères que nous avons vérifiés, les défis à relever pour améliorer la gestion financière sont énormes. Un seul ministère répond à presque toutes les attentes actuelles du gouvernement et aucun n'a actuellement les capacités nécessaires pour atteindre les objectifs de la Stratégie d'information financière et de l'Initiative de modernisation de la fonction de contrôleur. En bref, il sera très difficile d'assurer dans le secteur public une gestion semblable à celle du secteur privé si l'on n'intègre pas une information financière plus rigoureuse à la gestion quotidienne et à l'information redditionnelle communiquée au Parlement. L'établissement de ces capacités dans l'ensemble du gouvernement exigera un engagement ferme et un appui soutenu du Secrétariat du Conseil du Trésor, du Bureau du Conseil privé et des sous-ministres.

13.4 Le Bureau fait état depuis plusieurs années de la nécessité d'améliorer la gestion financière au gouvernement. De même, le Comité des comptes publics a noté ce qui suit : « on assiste à un appel général à l'amélioration de l'information financière fournie comme aide aux décisions du gouvernement ». Nous avons constaté une augmentation du nombre d'initiatives prises et un sentiment d'urgence accru visant l'élaboration de capacités solides en gestion financière. Le gouvernement et les ministères aussi ont un rôle important à jouer dans ce domaine. Le succès *Des résultats pour les Canadiens et les Canadiennes – Un cadre de gestion pour le gouvernement du Canada,* de la Stratégie d'information financière et de l'Initiative de modernisation de la fonction de contrôleur dépendra de leur action.

Contexte et autres observations

13.5 La gestion financière est un important volet de ce que font les gestionnaires des finances et des programmes des ministères et organismes pour assurer les programmes et les services et exercer une intendance sur les ressources qui leur sont confiées. Une approche systématique et intégrée de la gestion financière permet aux gestionnaires de disposer de l'information voulue pour prendre de bonnes décisions, bien gérer les risques et rendre compte adéquatement de l'utilisation des ressources publiques. Jusqu'à tout récemment, la gestion financière mettait l'accent sur le contrôle des budgets et le traitement des opérations. Dans le contexte d'aujourd'hui, qui évolue rapidement, il est urgent que le gouvernement assure une gestion financière efficace.

13.6 Nous avons noté que les ministères n'avaient pas instauré de surveillance adéquate de l'efficacité de leur cadre de contrôle. Une telle surveillance, ainsi que la communication à la haute direction de l'assurance que les mécanismes de contrôle fonctionnent comme prévu, constitue l'un des éléments importants d'une gestion saine, particulièrement à un moment où la mise en œuvre de nouveaux systèmes financiers entraîne des changements marqués.

13.7 L'une des lacunes les plus courantes que nous ayons constatées dans les ministères est la capacité limitée de combiner ou d'intégrer l'information financière et l'information opérationnelle (non financière). Cette lacune a des répercussions évidentes pour chacun des ministères et le gouvernement dans son ensemble. Tout d'abord, si les ministères ne peuvent intégrer cette information, ils ne peuvent donner au Parlement et au public canadien une image réaliste des coûts réellement engagés pour obtenir un résultat donné ou offrir un niveau donné de service. Ensuite, sans information intégrée, il n'est pas facile pour les cadres supérieurs de prévoir les coûts qui découleront des décisions importantes — par exemple, la décision d'augmenter ou de diminuer le niveau de service d'un programme.

13.8 Nous avons également constaté que les ministères n'avaient pas établi de vision ou de stratégie claires des transformations qui doivent intervenir — une première étape essentielle pour gérer les changements. De même, les ministères n'ont pas déterminé les compétences et les capacités nécessaires pour concrétiser ces changements, ni établi s'il existe une lacune entre ce qui est nécessaire et ce qu'ils possèdent actuellement. Nous avons aussi remarqué que les ministères n'avaient pas pris de mesures particulières pour surveiller les progrès réalisés dans l'établissement de solides capacités de gestion financière.

La réponse du Secrétariat du Conseil du Trésor, au nom du gouvernement et des cinq ministères examinés, figure à la fin du chapitre. Cette réponse indique que les recommandations correspondent aux plans actuels d'amélioration et aux attentes du gouvernement en matière de pratiques de gestion saines.

Les réponses de l'Agence canadienne du développement international, d'Environnement Canada, de Pêches et Océans, de Santé Canada et de Transports Canada sont incluses dans le chapitre, avec les études de cas. Elles indiquent une volonté de combler les lacunes relevées; dans de nombreux cas, des initiatives en ce sens sont déjà en cours.

Agence canadienne de développement international

La gestion des marchés et des accords de contribution

Chapitre 14 – Points saillants

14.1 Dans le cadre des programmes géographiques de l'Agence canadienne de développement international (ACDI), des marchés et des accords de contribution sont conclus avec des agences d'exécution canadiennes pour mettre en œuvre des projets de développement. Lorsque l'Agence a eu recours à des marchés concurrentiels pour la sélection des agences d'exécution, le processus a été bien mené, à quelques exceptions près. Toutefois, nous avons observé des cas où les marchés n'étaient pas conformes à la Politique sur les marchés du Conseil du Trésor ou au *Règlement sur les marchés de l'État*.

14.2 Pour les accords de contribution, l'ACDI n'a pas de cadre des pouvoirs semblable à celui du processus de passation de marché. Les conditions qui s'appliquent aux subventions et aux contributions relatives aux programmes géographiques sont très générales et n'indiquent pas comment ni quand utiliser les accords de contribution. Ces conditions comprennent une disposition selon laquelle les contributions doivent être approuvées en conformité avec les procédures et les pouvoirs ministériels ordinaires; cependant, l'ACDI peut traiter les cas d'exception au sein même de l'Agence. Par conséquent, l'utilisation par l'ACDI des accords de contribution pour la sélection des agences d'exécution s'est souvent écartée des politiques ou pratiques internes énoncées. L'ACDI peut sélectionner les agences d'exécution au moyen d'accords de contribution qui correspondent, en réalité, à des marchés à fournisseur unique, lesquels ne seraient pas autorisés aux termes du *Règlement sur les marchés de l'État*. C'était le cas pour environ la moitié des accords de contribution que nous avons examinés.

14.3 Les agents de projet de l'ACDI accordent une importance considérable à la surveillance des accords dont ils sont responsables. Ils ont couramment recours à des contractuels pour surveiller les progrès et faire rapport sur ceux-ci, et ils insistent pour que les agences d'exécution canadiennes leur soumettent les rapports requis.

14.4 Dans le cas du Programme d'envoi de volontaires, la Direction générale du partenariat canadien obtient une information adéquate sur la santé financière de ses partenaires canadiens. Cependant, elle reçoit peu d'information sur les projets financés, les sommes dépensées et les résultats obtenus. Pour accorder un financement, l'ACDI se fonde surtout sur les niveaux historiques plutôt que sur le rendement de ses partenaires. Le Rapport sur le rendement que l'ACDI présente au Parlement doit fournir une information plus pertinente et exacte sur la Direction générale du partenariat canadien.

Contexte et autres observations

14.5 L'ACDI doit gérer un budget d'environ 1,8 milliard de dollars destiné à l'aide internationale fournie par le Canada. Elle verse environ 700 millions de dollars aux directions générales des programmes géographiques pour des programmes exécutés en Asie, en Afrique et en Amérique latine. La plus grande partie de cette somme est affectée, par l'intermédiaire de marchés et d'accords de contribution avec des tiers appelés agences d'exécution, à des projets d'aide au développement. Une autre tranche de 260 millions de dollars est versée à la Direction générale du partenariat canadien pour les subventions et contributions accordées à des organisations qui exécutent leurs propres programmes d'aide.

14.6 En 1998, le Bureau du vérificateur général a publié un rapport qui présentait des observations sur la gestion axée sur les résultats dans le contexte des programmes géographiques. Nous avions alors conclu qu'il y avait des progrès évidents à ce chapitre, mais que ces progrès étaient inégaux.

14.7 La présente vérification portait sur la manière dont les directions générales des programmes géographiques gèrent les marchés et d'autres types d'accords pour l'acquisition de biens et de services, y compris la sélection des agences d'exécution canadiennes qui mettent en oeuvre les projets. Nous avons aussi examiné le cadre de contrôle des accords de financement du Programme d'envoi de volontaires de la Direction générale du partenariat canadien. La vérification avait pour objet de déterminer si les processus utilisés par l'ACDI pour la passation des marchés et les accords de contribution sont conformes au *Règlement sur les marchés de l'État*, aux lignes directrices du Conseil du Trésor et aux politiques de l'Agence elle-même, si ces processus sont équitables et transparents et s'ils satisfont aux exigences de fonctionnement et aux besoins en matière de développement.

Les réponses de l'Agence à nos recommandations sont intégrées au chapitre. L'Agence accepte les recommandations et précise les mesures qu'elle prend ou compte prendre pour y répondre.

Santé Canada

La santé des Premières nations : suivi

Chapitre 15 – Points saillants

15.1 Santé Canada a pris des mesures afin de donner suite à nos observations et à nos recommandations sur la santé des Premières nations (Rapport de 1997, chapitre 13). Nous craignons toutefois que le Ministère n'ait pas encore fait suffisamment de progrès pour régler nombre des problèmes cernés. Il faut déployer des efforts continus et soutenus pour assurer la mise en oeuvre complète de toutes les recommandations.

15.2 Nous avons constaté :

- que le système de traitement aux points de service, un mécanisme clé pour l'administration des prestations pharmaceutiques et le contrôle de l'utilisation des médicaments prescrits, est maintenant entièrement opérationnel. Ce système génère des messages d'avertissement concernant la consommation de médicaments pour aider les pharmaciens à décider s'il y a lieu de délivrer les ordonnances. Ainsi, un certain nombre d'ordonnances n'ont pas été remplies;
- qu'un processus de prédétermination des soins dentaires, mis en oeuvre à l'échelle nationale en 1997, a permis de réaliser des économies substantielles.

15.3 Cependant, nous avons observé :

- que la gestion des accords de contribution pour l'exécution des programmes de santé communautaire est encore faible;
- qu'il faut encore améliorer la gestion des ententes de transfert;
- que Santé Canada n'a pas suffisamment surveillé les cas où les pharmaciens n'ont pas tenu compte des messages d'avertissement concernant la consommation de médicaments, ni entrepris une analyse appropriée de l'efficacité des messages pour déterminer s'il y a lieu d'apporter des changements.

Contexte et autres observations

15.4 Santé Canada offre des services de santé et d'autres services connexes à plus de 600 collectivités des Premières nations, principalement par l'entremise de programmes de santé communautaire (y compris ceux dont la responsabilité a été transférée aux collectivités) et du Programme des services de santé non assurés, qui rembourse des prestations comme les médicaments prescrits, les soins dentaires, le transport pour des raisons de santé et d'autres prestations. Ensemble, ces services représentaient des dépenses d'un peu plus d'un milliard de dollars en 1998-1999.

15.5 Notre vérification de 1997 nous a permis de constater que les dépenses liées au Programme des services de santé non assurés n'étaient pas bien gérées et, dans la plupart des cas, n'étaient pas bien contrôlées. Plus précisément, d'importantes lacunes dans la gestion des prestations pharmaceutiques permettaient aux clients de se procurer des quantités extrêmement importantes de médicaments prescrits. Nous avons pris connaissance de nombreux rapports faisant état de toxicomanie due aux médicaments prescrits et de décès liés à ceux-ci parmi les membres des Premières nations dans plusieurs provinces. Nous avons également relevé des lacunes dans la gestion des accords de contribution prévus pour l'exécution des programmes de santé communautaire ainsi que dans la gestion des ententes de transfert.

15.6 Notre suivi a révélé que le Ministère avait fait peu de progrès pour s'assurer que les rapports exigés en vertu des accords de contribution distincts sont fournis. Nous avons aussi constaté que les rapports sur le rendement du Ministère contiennent peu d'information sur la situation des programmes de santé communautaire, y compris les résultats obtenus.

15.7 Quant aux ententes de transfert, nous avons constaté que les plans de santé communautaire ne sont toujours pas mis à jour lors du renouvellement des ententes et que les exigences en matière de vérifications, de rapports annuels et d'évaluations sont rarement respectées.

15.8 Le Ministère a élaboré et mis en oeuvre un protocole de suivi auprès des clients, des médecins, des pharmaciens et des organismes professionnels pour les cas laissant supposer l'éventualité d'un usage à mauvais escient de médicaments prescrits. Cette mesure a eu un effet positif; dans certaines régions, le nombre de personnes se procurant de grandes quantités de médicaments prescrits a commencé à décliner. Cependant, puisque la direction doutait du caractère approprié de l'approche en l'absence du consentement du client ou d'une autorisation législative explicite pour le Programme des services de santé non assurés, on a mis fin à cette mesure en mai 1999. Il y a encore des clients du Programme qui se procurent de grandes quantités de médicaments prescrits, et ces cas nécessitent un suivi.

15.9 Le Ministère a tardé à élaborer une stratégie de vérification fondée sur une évaluation appropriée des risques et à l'intégrer à son nouveau contrat de traitement des demandes de remboursement des pharmaciens et des fournisseurs de soins dentaires. Il n'a pu également s'assurer que l'entrepreneur effectue les vérifications sur place des pharmacies et des fournisseurs de soins dentaires exigées par le contrat. Nous avons constaté que peu de vérifications avaient été effectuées depuis décembre 1998 pour fournir l'assurance que les dépenses réclamées avaient été engagées aux fins visées.

15.10 Peu de progrès ont été réalisés pour améliorer l'efficience de l'administration des prestations de transport pour des raisons de santé.

Les réponses de Santé Canada à nos recommandations sont incluses dans le présent chapitre. Le Ministère continue de prendre des mesures correctives en réponse à nos recommandations de 1997 et il a accepté de donner suite à nos deux nouvelles recommandations.

Suivi des recommandations formulées dans des rapports antérieurs

Chapitre 16 – Points saillants

16.1 Le chapitre présente les suivis de six vérifications dont les résultats ont été signalés dans des rapports publiés entre 1995 et 1998. Dans le dernier volume du rapport de cette année, qui doit être déposé en décembre 2000, nous publierons un autre chapitre de suivis et présenterons une conclusion globale sur les progrès qu'a réalisés le gouvernement pour donner suite aux préoccupations que nous avions exprimées dans des rapports antérieurs.

16.2 Le cadre législatif et le contexte politique au sein duquel le secteur des services financiers évolue ont connu de grands changements depuis la publication de nos rapports de 1995 et de 1997. Le Canada est doté d'un solide cadre de réglementation pour ce secteur. Le Bureau du surintendant des institutions financières (BSIF) a pris de nombreuses mesures satisfaisantes pour mettre en oeuvre nos recommandations précédentes. Cependant, avec tous les changements prévus qui auront un effet sur le secteur des services financiers, la capacité de surveillance et de réglementation du BSIF pourrait être mise à l'épreuve à court terme. De plus, dans ce milieu en évolution, le recrutement et le maintien en poste d'employés seront un défi de taille à relever.

16.3 Malgré la lenteur des progrès relatifs aux recommandations contenues dans notre chapitre du Rapport de novembre 1995 intitulé « Les fonds renouvelables dans le régime parlementaire : Gestion financière, responsabilisation et vérification », les mesures récentes prises par le Secrétariat du Conseil du Trésor y répondent en grande partie.

16.4 Le Conseil canadien des relations industrielles, anciennement le Conseil des relations du travail, a fait des progrès pour donner suite à nos préoccupations à l'égard des problèmes de contrôle financier. Le paiement des frais des anciens membres constitue la principale dépense au titre des coûts de transition de 1,7 million de dollars du Conseil canadien des relations industrielles. Nous avons également constaté que, dans l'ensemble, le gouvernement n'a pas pris de mesures adéquates afin d'améliorer le cadre redditionnel régissant les dépenses de voyage et d'accueil des hauts fonctionnaires nommés par le gouverneur en conseil.

16.5 La Défense nationale a accompli des progrès marqués pour traiter le manque de plans et de priorités dans son programme d'acquisition de biens d'équipement. La gestion de grands projets d'acquisitions particuliers s'est aussi améliorée. Le Ministère est allé au-delà de ses engagements originaux pour mettre en oeuvre des améliorations. Cependant, selon les représentants du Ministère, il manque, chaque année, environ 750 millions de dollars pour moderniser et maintenir l'état de préparation des Forces. Les « choix difficiles » dont il était question en 1998 ont été cernés, mais ils n'ont pas tous été faits.

Autres observations de vérification

Chapitre 17 – Points saillants

17.1 La *Loi sur le vérificateur général* exige du vérificateur général qu'il inclue dans ses rapports les questions d'importance qui, à son avis, devraient être portées à l'attention de la Chambre des communes.

17.2 Le chapitre consacré aux « Autres observations de vérification » joue un rôle particulier dans les rapports. D'autres chapitres décrivent habituellement les constatations faites lors des vérifications intégrées que nous avons effectuées dans des ministères particuliers, ou bien ils donnent un compte rendu de vérifications et d'études qui portent sur des questions relatives aux activités du gouvernement dans son ensemble. Dans ce chapitre, nous faisons rapport sur des questions précises dont nous avons pris connaissance au cours de nos vérifications financières et de nos vérifications de conformité aux autorisations des comptes publics du Canada, des états financiers des sociétés d'État et d'autres entités ou au cours de nos vérifications de l'optimisation des ressources.

17.3 Le chapitre renferme habituellement des observations qui se rapportent aux dépenses ou aux recettes des ministères. En général, les questions traitées portent sur la non-conformité aux autorisations ainsi que sur les dépenses de deniers publics sans souci de l'économie.

17.4 Dans ce chapitre, nos observations portent sur les sujets suivants :

- La location de locaux à un prix excessif pour un Centre de services aux entreprises du Canada à Sydney, en Nouvelle-Écosse, qui n'a jamais fonctionné comme prévu;
- La déduction de prestations des recettes, contrairement au traitement comptable recommandé, masque l'envergure réelle des recettes et dépenses du gouvernement et complique l'évaluation des mesures budgétaires;
- Il n'y pas d'autorisation parlementaire claire pour les programmes et les dépenses au titre de Parc Downsview Park inc.;
- Le non-recouvrement des dépenses engagées pour l'alimentation en eau potable des réserves indiennes touchées par des projets d'aménagement de Manitoba Hydro;
- Le risque élevé qu'un projet de réinstallation de 113 millions de dollars ne réponde pas adéquatement aux besoins des Innus.

17.5 Même si les observations de vérification particulières signalent des questions importantes, le lecteur ne doit pas s'en servir pour tirer des conclusions sur des points que nous n'avons pas examinés.

La régie des sociétés d’État

Chapitre 18 – Points saillants

18.1 La gestion des sociétés d’État s’est améliorée depuis que la *Loi sur la gestion des finances publiques* a été modifiée, en 1984, pour en renforcer le cadre de contrôle et de responsabilisation. Toutefois, d’autres améliorations s’imposent dans certains domaines importants, comme la planification stratégique et organisationnelle, la mesure du rendement et la communication des résultats. À notre avis, une attention toute particulière doit être accordée à trois aspects essentiels à la régie des sociétés d’État.

- Les conseils d’administration des sociétés d’État doivent être renforcés. En effet, les conseils reflètent la diversité du Canada, mais ils ne possèdent pas d’autres compétences ou capacités essentielles pour fonctionner efficacement et pour s’acquitter de leurs responsabilités importantes aux termes de la *Loi sur la gestion des finances publiques* relativement à la conduite de leurs affaires. Les sociétés doivent mieux définir leurs exigences en matière de compétences et de capacités et les communiquer au gouvernement; pour sa part, le gouvernement doit y donner suite. Les conseils d’administration doivent également participer de façon plus active à la sélection de leur président et du premier dirigeant de la société d’État. Si le conseil d’administration ne participe pas vraiment à la sélection du premier dirigeant de la société, la responsabilisation de ce dernier envers le conseil est affaiblie et la régie de la société dans son ensemble s’en ressent.
- Les comités de vérification remplissent un rôle essentiel au sein des sociétés d’État, au chapitre de l’établissement des rapports financiers, de la gestion des risques et du contrôle interne. Ils sont le « moteur » des conseils d’administration. Pourtant, la moitié des conseils de vérification que nous avons examinés ne fonctionnaient pas de façon efficace. L’existence d’importantes lacunes au sein d’un comité de vérification peut nuire à la capacité globale du conseil.
- Le gouvernement est limité dans sa capacité d’examen et de critique des plans d’entreprise des sociétés d’État aux fins de leur approbation. Les plans d’entreprise établissent l’orientation stratégique des sociétés d’État et ils sont censés être la pierre angulaire de leur cadre de contrôle et de responsabilisation, aux termes de la *Loi sur la gestion des finances publiques*. Le gouvernement doit consolider sa capacité d’examiner et de critiquer ces plans car, une fois approuvés, ils constituent les documents en vertu desquels les sociétés d’État sont tenues de se conformer à la politique du gouvernement et de rendre compte de leur rendement global. Qui plus est, il y a lieu d’examiner de façon plus régulière et systématique les mandats des sociétés d’État, pour en déterminer la pertinence.

18.2 Des lacunes dans tous ces domaines nuisent à la mise en oeuvre efficace de la partie X de la *Loi sur la gestion des finances publiques* et à la qualité de la régie des sociétés d’État. Elles ont été soulevées à maintes reprises dans le passé, dans les rapports du vérificateur général et dans d’autres études et rapports de sources extérieures, mais elles demeurent. Les premiers dirigeants des sociétés d’État et les présidents des conseils d’administration considèrent que le règlement de ces questions est primordial et qu’il est urgent de les aborder. D’autres pays industrialisés ont devancé le Canada dans ces domaines de la régie des sociétés d’État.

18.3 La régie des sociétés décrit le processus et la structure de surveillance de la direction et de la gestion d’une société d’État, grâce auxquels elle peut remplir son mandat et atteindre ses objectifs efficacement. Il est primordial qu’une société d’État, en tant qu’organisme du secteur public, soit bien régie pour que l’argent des contribuables soit bien dépensé. La bonne régie des sociétés est importante, pour maximiser le rendement, prévenir les pertes financières éventuelles et remplir le mandat. Par ailleurs, c'est en période de difficultés, de turbulences et de changements que la bonne régie des sociétés est des plus importante.

Contexte et autres observations

18.4 Les sociétés d'État sont des entités juridiques distinctes propriétés exclusives de l'État. Elles oeuvrent dans de nombreux secteurs, notamment les transports, l'agriculture et la culture. Elles jouissent d'une plus grande autonomie de gestion que la plupart des autres entités gouvernementales de sorte qu'elles peuvent fonctionner davantage à la manière d'une entreprise commerciale. Un conseil d'administration surveille la gestion de chaque société et tient la direction comptable de son rendement. Le gouvernement conserve son pouvoir et son influence sur les sociétés d'État dans des domaines comme les nominations, la rémunération des premiers dirigeants et des administrateurs, et l'approbation des plans et des budgets.

18.5 Les sociétés d'État exécutent une part importante des activités gouvernementales. On compte actuellement 41 sociétés d'État fédérales (compte non tenu des filiales), qui emploient 70 000 personnes. Les sociétés d'État réunies (à l'exclusion de la Banque du Canada) gèrent des actifs de 68 milliards de dollars et un passif de 61 milliards de dollars. Les sociétés d'État donnent l'occasion non négligeable de mettre en oeuvre une politique d'intérêt public et d'atteindre d'autres objectifs, ainsi que de produire des recettes, mais elles sont aussi largement exposées à d'éventuelles pertes financières et à d'autres risques.

18.6 Outre les activités permanentes que nous menons à titre de vérificateurs et examinateurs de la plupart des sociétés d'État, nous avons vérifié en détail un groupe représentatif de 15 sociétés d'État. Nous avons également comparé les sociétés d'État canadiennes à des entreprises publiques d'autres pays. En outre, nous avons utilisé les résultats d'autres recherches, études, vérifications et tables rondes pour étayer nos constatations. De plus, nous avons résumé les résultats d'examens spéciaux — une forme de vérification de l'optimisation des ressources des sociétés d'État — menés entre 1984 et 2000.

Étant donné que bon nombre des recommandations portent sur le pouvoir discrétionnaire du gouverneur en conseil, aucune réponse détaillée à celles-ci n'a été présentée. Le Bureau du Conseil privé déclare que, dans l'ensemble, le gouvernement a fait des progrès importants dans plusieurs domaines de la régie et qu'il s'engage à étudier des mesures pour améliorer les domaines qui en ont besoin et à renforcer, en bout de ligne, la régie des sociétés d'État. Le Bureau du Conseil privé ajoute qu'il est primordial de veiller à ce que les administrateurs nommés permettent de constituer des conseils d'administration solides et que toutes les parties intéressées des sociétés d'État aient un rôle à jouer dans le processus de nomination, rappelant toutefois que les nominations demeurent la prérogative du gouvernement.

La réaction des présidents du conseil et des premiers dirigeants des sociétés d'État indique que, pour la plupart, ils sont d'accord avec les recommandations qui s'adressent précisément à eux.

L'information sur le rendement communiquée au Parlement

Les progrès sont trop lents

Chapitre 19 – Points saillants

19.1 L'information sur le rendement communiquée au Parlement par les ministères et les organismes est en progrès, mais nous jugeons que le rythme actuel des progrès est décevant. À ce rythme, il faudra beaucoup trop de temps pour que l'habitude de communiquer de l'information de bonne qualité s'instaure. Nous admettons qu'il n'est pas facile de communiquer de l'information sur le rendement et qu'il faut du temps pour cela. Pourtant, nous pensons qu'il faut attacher plus d'importance à cette question. Les députés ont besoin d'information sur ce que les Canadiens obtiennent en contrepartie des taxes qu'ils paient, afin de tenir le gouvernement responsable. L'information sur le rendement de bonne qualité est devenue un élément essentiel des systèmes démocratiques modernes.

19.2 Le moment est peut-être venu de légiférer pour obtenir cette information. Plusieurs gouvernements au Canada ont adopté des lois qui obligent leur administration à rendre compte de son rendement à la législature. La loi met en lumière l'importance d'une information de bonne qualité et en fait une exigence plus permanente et plus durable.

19.3 Notre examen des documents du *Budget des dépenses* — des rapports sur les plans et les priorités et des rapports ministériels sur le rendement — de 47 ministères et organismes au cours des 4 à 5 dernières années a révélé ce qui suit :

- Même s'il y a eu progrès, peu de ministères énoncent concrètement ce qu'ils prévoient réaliser et rendent compte par rapport à ces attentes.
- Dans l'information communiquée sur leurs réalisations, les ministères s'attachent trop à donner des listes d'activités et d'extrants et trop peu à faire le lien entre leurs activités et les résultats escomptés.
- Les rapports ne présentent que trop peu de constatations d'évaluation des résultats des activités et de la façon dont les programmes contribuent aux résultats.
- Il existe peu de liens entre l'information sur le rendement financière et non financière; on ne donne pas les coûts de la plupart des réalisations.
- Les rapports sur le rendement ne sont pas équilibrés. La plupart des ministères ne rendent compte que des « bonnes nouvelles » et ne font presque pas mention du rendement inférieur aux attentes. Comme les députés l'ont déclaré à maintes reprises, les rapports qui ne présentent que des bonnes nouvelles ne sont pas crédibles.

19.4 Nous avons noté le leadership assuré par le Secrétariat du Conseil du Trésor en matière de rapport. Nous avons trouvé aussi quelques exemples de reddition de comptes et un certain nombre de points forts dans le mécanisme actuel de rapport. Néanmoins, après cinq ans d'expérience, les rapports ministériels ne présentent que des améliorations modestes dans l'ensemble.

19.5 Parmi les facteurs qui ont contribué à la faiblesse actuelle des rapports, trois facteurs ressortent :

- les principes fondamentaux d'un bon rapport ne sont pas compris ni appliqués;
- la communication d'information sur le rendement a des dimensions politiques;
- il existe peu d'incitatifs à la production d'un bon rapport ou peu de sanctions à la production d'un mauvais.

19.6 Outre qu'il pourrait envisager de proposer une loi, à notre avis, le gouvernement doit apporter les changements suivants au mécanisme actuel de rapport :

- en arriver à une entente sur les principes régissant la communication de l'information sur le rendement;
- accorder plus d'importance aux incitatifs de nature à favoriser l'adoption de méthodes de rapport fondées sur des éléments probants;
- faire en sorte que le Secrétariat du Conseil du Trésor assure une surveillance plus rigoureuse;
- obtenir que les parlementaires participent davantage à l'examen des plans et des rapports sur le rendement.

Contexte et autres observations

19.7 Chaque année, à l'automne, les ministères fédéraux présentent au Parlement leurs rapports sur le rendement dans lesquels ils décrivent leurs réalisations. Les rapports sont renvoyés au comité permanent compétent. L'étude des rapports à ce moment-là permet aux comités parlementaires de faire des recommandations en prévision des décisions de dépense devant être annoncées plus tard par le gouvernement dans le Budget. Au printemps, après le Budget, les ministères présentent leurs rapports sur les plans et les priorités, lesquels décrivent ce qu'ils prévoient réaliser au cours de l'exercice à venir et des exercices suivants.

19.8 En 1997, nous avons fait rapport pour la première fois sur le nouveau mécanisme de rapport au Parlement. Nous avons constaté qu'il s'agissait d'un bon départ et que le cadre fondamental utilisé pour communiquer l'information était bon.

19.9 Un rapport sur le rendement crédible comporte nombre d'avantages : il peut améliorer la reddition de comptes et la confiance dans le gouvernement; fournir de l'information sur des programmes et des services améliorés et permettre un meilleur examen parlementaire de ceux-ci; enfin, il peut servir d'incitatif aux ministères et aux organismes pour qu'ils gèrent en fonction des résultats escomptés.

19.10 À deux occasions au cours des dernières années, le Comité permanent de la procédure et des affaires de la Chambre a publié des rapports contenant des recommandations sur des façons d'inciter les parlementaires à étudier davantage le *Budget des dépenses*.

19.11 Le Président du Conseil du Trésor dépose tous les ans, avec les rapports ministériels sur le rendement, un rapport au Parlement sur la mesure du rendement, les rapports et la gestion axée sur les résultats au gouvernement. Ces dernières années, ce rapport a fourni de l'information sur le rendement utile en matière de résultats collectifs, c'est-à-dire les secteurs où plusieurs ministères ou plusieurs gouvernements travaillent ensemble en vue de l'atteinte d'un résultat.

19.12 Le Secrétariat du Conseil du Trésor prend d'importantes mesures en vue de faire davantage rapport électroniquement. Il doit encourager les ministères à tirer un plus grand parti de ce médium, et recenser et faire connaître les bonnes pratiques.

La réponse du Secrétariat du Conseil du Trésor, formulée au nom du gouvernement et des ministères vérifiés, est présentée à la fin du chapitre. Le Secrétariat a répondu de façon positive au chapitre et aux recommandations qu'il contient. Le Secrétariat accepte celles-ci et indique, au besoin, les mesures prises ou prévues pour y donner suite.

La gestion ministérielle axée sur les résultats et la gestion des questions horizontales axée sur les résultats

Chapitre 20 – Points saillants

20.1 Lors de l'examen de cinq grands ministères fédéraux et de dix programmes, nous avons constaté que plusieurs ministères ont fait des efforts concrets pour se concentrer sur les résultats. Il y avait des signes évidents d'engagement et de soutien de la part de la haute direction, d'importantes activités de planification, le recensement d'indicateurs de rendement clés et un certain travail de mesure d'après ces indicateurs.

20.2 Nous avons par contre trouvé que l'information sur les résultats était couramment utilisée seulement pour quatre des dix programmes. Dans la plupart des ministères que nous avons examinés, on est perpétuellement en train de planifier en fonction des résultats — plutôt que de gérer en fonction des résultats — ce qui signifie que peu de progrès ont été accomplis dans l'utilisation de l'information sur les résultats depuis que nous avons fait rapport à ce sujet en 1997. Il est maintenant temps pour les ministères d'aller au-delà de la planification : il faut procéder d'une façon plus généralisée à la mesure des résultats obtenus et à l'utilisation de cette information pour améliorer les programmes.

20.3 Le gouvernement doit garantir que la fonction d'évaluation joue un rôle central dans son évolution vers la gestion axée sur les résultats. Dans bien des ministères, la capacité d'évaluation s'est atrophiée alors qu'il faut intensifier, et non pas amoindrir, la mesure des résultats des programmes.

20.4 Le gouvernement a de plus en plus besoin de gérer les initiatives qui touchent plus d'un ministère fédéral. Les questions « horizontales » comme le Plan d'action du gouvernement du Canada concernant les personnes handicapées représentent souvent des priorités gouvernementales. Notre étude de trois questions horizontales a révélé que, comme plusieurs des programmes ministériels examinés, elles n'étaient pas gérées en fonction des résultats.

20.5 Au cours des dernières années, le gouvernement a bien souligné l'importance de fonder la bonne gestion et l'obligation redditionnelle sur les résultats, concept de plus en plus accepté dans l'administration publique. La mise en pratique de ce concept exigera toutefois une plus grande participation de la part des organismes centraux. Ils doivent encourager et appuyer les ministères à aller au-delà de la planification en vue d'obtenir des résultats. Nous estimons trop limité le leadership du Secrétariat du Conseil du Trésor et son appui trop fragmenté pour vraiment aider les ministères dans leurs efforts de gérer en fonction des résultats. Le Secrétariat n'a pas non plus de stratégie pour traiter des questions horizontales; or, il lui faut aborder ces questions d'une façon stratégique étant donné leur importance grandissante au gouvernement.

Contexte et autres observations

20.6 Gérer en fonction des résultats permet aux gestionnaires d'apporter des changements une fois qu'ils savent ce qui fonctionne et ce qui ne fonctionne pas. C'est donc une nouvelle approche à l'égard de la gestion des programmes gouvernementaux. Ainsi, les gestionnaires peuvent porter davantage attention à déterminer si les programmes répondent aux objectifs et moins à simplement mener des activités ou établir des structures et des processus.

20.7 Le concept de la gestion axée sur les résultats est maintenant bien accepté au gouvernement. Comme première étape de la mise en pratique, la plupart des ministères ont dû harmoniser leurs processus et structures de gestion par rapport aux résultats qu'ils attendaient et non par rapport à leurs programmes ou activités. Chaque ministère devait établir des objectifs globaux puis réfléchir à la façon de se structurer d'après les résultats attendus. La plupart des ministères examinés consacraient de sérieux efforts à planifier leur manière de gérer selon les résultats.

20.8 Une fonction de coordination qui est appuyée par la haute direction (notamment dans un ministère directeur) et qui dispose de suffisamment de ressources pour faire le travail constitue un élément critique de la gestion d'une question horizontale axée sur les résultats.

20.9 Les ministères reçoivent peu de conseils pratiques sur la gestion axée sur les résultats et il n'y a guère de partage d'expérience. Il faut davantage les encourager à aller au-delà de la planification en vue d'obtenir des résultats et il faut également identifier des champions.

20.10 La gestion axée sur les résultats présente des défis, mais il existe des façons pratiques et connues de les surmonter. Les gens doivent accepter l'idée d'apprendre de leur expérience, y compris de leurs erreurs. Il faut chercher davantage à comprendre les expériences vécues puis ajuster ses pratiques en conséquence.

Le lecteur trouvera à la fin de ce chapitre la réponse du Secrétariat du Conseil du Trésor, formulée au nom du gouvernement et des ministères vérifiés. Le Secrétariat accepte nos recommandations et indique les mesures prises ou prévues pour y donner suite.

Le Programme de recrutement postsecondaire de la fonction publique fédérale

Chapitre 21 – Points saillants

21.1 Notre examen du Programme de recrutement postsecondaire a révélé que la Commission de la fonction publique du Canada recrute des candidats qualifiés. Cependant, elle en recrute trop peu compte tenu du nombre important de cadres, de professionnels et de gestionnaires de la fonction publique qui seront admissibles à la retraite dans un avenir rapproché. Le gouvernement doit régler immédiatement le problème du recrutement pour pouvoir continuer à exécuter des programmes et à fournir des services de qualité aux Canadiens.

21.2 Nous avons constaté que l'efficience et l'efficacité du Programme étaient faibles dans les secteurs suivants :

- Les prévisions des besoins de recrutement ne sont pas énoncées clairement. Si l'on n'a pas une idée claire du nombre et du type d'employés dont on a besoin, il est difficile d'établir des niveaux de recrutement précis et d'élaborer des stratégies de recrutement appropriées.
- Les niveaux de recrutement établis dans le cadre du Programme n'ont pas toujours été atteints.
- La Commission doit être un recruteur plus dynamique des diplômés universitaires, car ils font l'objet d'une concurrence accrue. Il faut faire une meilleure promotion de la fonction publique à titre de choix de carrière, accroître la visibilité du gouvernement sur les campus et améliorer le calendrier et la durée des campagnes de recrutement.
- Très peu de ministères participent à ce programme, ce qui limite sa capacité de renouveler la fonction publique.
- La Commission ne tient ni ne gère de répertoires de candidats qualifiés pour les ministères.
- On n'a pas fait une évaluation régulière et méthodique du Programme et des activités qui s'y rattachent en vue d'en améliorer l'efficacité et l'efficience. Résultat : il est difficile pour le gouvernement de prendre les mesures correctives qui s'imposent en matière de recrutement.
- La communication des résultats n'est pas adéquate.

21.3 Nous nous inquiétons au sujet de la capacité du gouvernement de relever le défi du recrutement.

Contexte et autres observations

21.4 La fonction publique a considérablement vieilli. D'ici 2008, 70 p. 100 des cadres pourraient prendre leur retraite, et les groupes de relève, c'est-à-dire les personnes qui pourraient les remplacer éventuellement, affichent un profil de retraite semblable. Les fonctionnaires de moins de 35 ans sont sous-représentés.

21.5 Les cadres supérieurs actuels ont mis en moyenne dix ans pour passer du niveau d'entrée à un niveau de direction. Le recrutement est donc devenu un impératif pour assurer le bon fonctionnement de la fonction publique de demain.

21.6 La fonction publique a changé et elle a besoin d'une proportion plus élevée de travailleurs du savoir que dans le passé. Aujourd'hui, ces travailleurs constituent 55 p. 100 des fonctionnaires.

21.7 Il y a au moins dix ans que le recrutement fait problème dans la fonction publique. De nombreux rapports et, plus récemment, le discours du Trône de 1999, ont signalé la nécessité de recruter dans la fonction publique en raison de facteurs démographiques et d'autres facteurs, comme la concurrence accrue qu'on se livre pour les candidats qualifiés.

21.8 Il est admis qu'une fonction publique efficace et non partisane est essentielle au bon fonctionnement d'un pays démocratique. Pour garder sa vitalité, la fonction publique doit être en mesure de recruter des employés compétents et de les maintenir en poste.

21.9 Le gouvernement reconnaît que le recrutement dans la fonction publique est prioritaire. Dans son rapport annuel de mars 2000, le greffier du Conseil privé a déclaré ceci : « Le recrutement doit commencer dès maintenant, afin que les recrues aient le temps de se préparer, de parfaire leurs habilités et de profiter de l'expérience et des compétences des fonctionnaires de partout au pays. »

21.10 Nous nous inquiétons au sujet de la capacité du gouvernement de relever le défi urgent du recrutement pour les années à venir.

On trouvera à la fin du présent chapitre la réponse du Secrétariat du Conseil du Trésor, formulée au nom du gouvernement et des ministères vérifiés, ainsi que celle de la Commission de la fonction publique. On reconnaît dans les réponses l'importance du recrutement et on y indique des plans en vue de régler les problèmes cernés.

L'élaboration de la Norme générale de classification

Suivi

Chapitre 22 – Points saillants

22.1 Le Secrétariat du Conseil du Trésor a fait de grands progrès dans la mise en oeuvre de la recommandation de notre rapport de vérification de 1996 concernant l'élaboration de la Norme générale de classification pour la fonction publique fédérale. Ce projet est essentiel à la réforme de la gestion des ressources humaines, particulièrement en matière de dotation et de rémunération. Il s'agit d'une entreprise monumentale et très complexe, qui exige beaucoup de temps. Le système actuel est périmé et ne répond plus aux exigences de la fonction publique d'aujourd'hui et de demain.

22.2 Au cours des dernières années, le Secrétariat a mis au point une Norme en vue de mesurer les divers genres de travail dans la fonction publique et il a soumis cette Norme à une série de tests dans les ministères. Depuis 1998, les ministères ont entrepris la rédaction de nouvelles descriptions de travail pour tous les postes et les ont évaluées en utilisant la Norme. Dans le cadre de ce projet, le Secrétariat du Conseil du Trésor a élaboré et publié des guides et des méthodologies fondés sur les pratiques exemplaires en matière d'évaluation des emplois.

22.3 Malgré ces réalisations, le gouvernement a encore d'importantes questions à régler :

- Le Secrétariat du Conseil du Trésor doit faire en sorte que la nouvelle Norme soit appliquée de façon appropriée avant d'entreprendre la conversion;
- Les ministères doivent veiller à l'exactitude de leurs descriptions de travail et s'assurer que les résultats de leur évaluation des postes sont valides et adéquats;
- Le Secrétariat doit procéder à de nouveaux tests fondés sur des données exactes et à jour, afin de déterminer dans quelle mesure la Norme atteint ses objectifs en matière d'universalité et de non-sexisme;
- Le gouvernement doit s'assurer que l'on dispose de ressources financières raisonnables et réalistes pour la conversion à la nouvelle Norme.

Contexte et autres observations

22.4 Une norme de classification est un outil qui mesure la valeur relative des postes dans une organisation. La Norme générale de classification en voie d'élaboration doit permettre d'évaluer tous les postes de la fonction publique en fonction de la nature du travail. Les résultats conduisent à l'établissement d'une hiérarchie des postes et d'une rémunération qui reflète les exigences de ceux-ci.

22.5 La Norme s'appliquera à tout fonctionnaire dont l'employeur est le Conseil du Trésor, à l'exception des membres du groupe de la direction. En août 2000, environ 150 000 postes répartis dans 72 groupes professionnels et environ 65 ministères et organismes étaient assujettis au nouveau système de classification. La nouvelle norme de classification doit répondre aux exigences de la *Loi canadienne sur les droits de la personne* relatives à la parité salariale pour des fonctions équivalentes.

22.6 Les normes actuelles de classification ne reflètent pas l'importance accordée aujourd'hui aux services à donner au public et à la gestion axée sur les résultats. Elles ne tiennent pas davantage compte du fait que les fonctionnaires travaillent de plus en plus en partenariat avec d'autres paliers de gouvernement et avec le secteur privé.

22.7 L'élaboration d'une nouvelle norme de classification a été entreprise en 1991, dans le cadre du projet Fonction publique 2000. En 1996, nous avons relevé d'importantes lacunes (Rapport de mai 1996, chapitre 5). À la suite de nos recommandations et des résultats de son propre examen, le gouvernement a entrepris d'améliorer la Norme générale de classification. Le présent chapitre de suivi constitue un rapport d'étape sur ce projet jusqu'à maintenant.

Le Secrétariat du Conseil du Trésor accepte nos constatations et nos recommandations et indique qu'il poursuivra ses efforts en vue d'atteindre les objectifs de la Norme générale de classification.

Les technologies de l'information

L'acquisition de biens et de services

Chapitre 23 – Points saillants

23.1 Lors de la vérification des activités d'acquisition (achats) portant sur d'importants projets de technologie de l'information au sein du gouvernement, nous avons constaté que deux acquisitions récentes respectaient certains des éléments essentiels d'une méthode d'achat et d'un cadre de gestion de projet conçus pour améliorer la réalisation des grands projets technologiques. Cette approche met l'accent sur les avantages que l'on peut tirer d'un projet plutôt que sur le choix d'une solution précise à un problème fonctionnel. Bien que ces deux projets n'en soient encore qu'au stade de la construction, leur réalisation se déroule conformément aux plans. Même si la mise en oeuvre et le déploiement complet des nouveaux systèmes ne sont pas garantis, les résultats obtenus jusqu'à présent sont encourageants.

23.2 Nous avons cependant constaté que les activités d'acquisition continuaient à s'étaler sur une période de 18 mois ou plus. Il importe que le gouvernement mène ces activités plus rapidement afin de faciliter l'atteinte de son objectif, le gouvernement en direct, d'ici 2004.

23.3 Nous avons aussi examiné le processus d'acquisition courant de micro-ordinateurs, de logiciels et de matériel pour les réseaux locaux. Nous avons constaté que le gouvernement n'a pas encore terminé le remplacement de son ancienne méthode d'approvisionnement pour les achats courants, à faible volume, de permis d'utilisation de logiciels et de services de solutions logicielles. De ce fait, les ministères et organismes utilisateurs ne disposent pas de moyens rapides et prénégociés pour faire des achats de faible valeur de produits et services informatiques.

23.4 Nous avons également constaté que, sous sa forme actuelle, la méthode de remplacement est inadéquate. Le gouvernement risque donc de continuer à acquérir des parcs de logiciels de manière ponctuelle, sans égard au régime de concurrence. Lorsque les ministères et organismes procèdent de cette manière, le gouvernement risque de s'exposer au dépôt devant le Tribunal canadien du commerce extérieur, de plaintes relatives aux contrats d'extension de l'utilisation de logiciels à l'ensemble d'un ministère ou aux contrats comportant l'entretien et la mise à niveau de ces logiciels à l'échelle du ministère.

23.5 L'acquisition de permis d'utilisation de logiciels et de services de solutions logicielles selon les règles est un défi qui reste à relever. Il faut que le gouvernement envisage d'adopter une stratégie d'acquisition de logiciels qui prenne la forme d'un investissement en technologie de l'information.

Contexte et autres observations

23.6 Notre analyse des données a montré que les importantes dépenses d'acquisition de biens et de services dans le domaine des technologies de l'information (TI) continuent à augmenter. Selon nos estimations, les dépenses de TI en 1998-1999 se sont élevées à environ 3,4 milliards de dollars, ce qui inclut les coûts salariaux.

23.7 La méthode d'approvisionnement pour les achats courants, à faible volume, de micro-ordinateurs et de produits liés aux réseaux locaux est valable et ajoute de la valeur au processus d'acquisition. Néanmoins, il serait possible, à notre avis, d'économiser environ 10 millions de dollars par an en profitant davantage des regroupements d'achats.

23.8 Notre vérification a porté sur huit ministères et organismes utilisateurs. Nous avons testé leur conformité au pouvoir d'acquisition qui leur avait été délégué. Nous avons constaté quelques écarts mineurs, mais n'avons relevé aucun cas d'abus criant ou généralisé de ce pouvoir.

23.9 Les récentes décisions du Tribunal canadien du commerce extérieur sont la raison principale pour laquelle on a modifié la méthode d'offres à commandes pour les achats courants, à faible volume, de permis d'utilisation de logiciels et de services de solutions logicielles. En outre, bien que peu de cas aient été soumis au Tribunal, les utilisateurs du gouvernement et la communauté des TI ont déclaré que ces cas avaient suscité un examen attentif de tous les achats technologiques au gouvernement afin d'éviter toute plainte éventuelle auprès du Tribunal. À notre avis, il doit y avoir un respect accru des objectifs du gouvernement en matière de marchés, à savoir répondre aux exigences opérationnelles en tenant dûment compte de l'optimisation des ressources tout en adhérant au principe d'une concurrence ouverte et équitable dans le respect des règlements du gouvernement et des accords commerciaux.

Dans l'ensemble, le gouvernement appuie les recommandations qui se trouvent dans le présent chapitre.

Les programmes fédéraux de réglementation relatifs à la santé et à la sécurité

Chapitre 24 – Points saillants

24.1 Les programmes de réglementation relatifs à la santé et à la sécurité ont pour objectif global de protéger les Canadiens de façon proactive contre les risques liés à la santé et à la sécurité. Il s'agit en fait de cerner les problèmes avant qu'ils se manifestent, et si un problème survient, d'en atténuer le plus possible les conséquences.

24.2 L'Agence canadienne d'inspection des aliments, Santé Canada, Environnement Canada, Transports Canada, la Commission canadienne de sûreté nucléaire et l'Office national de l'énergie administrent les principaux programmes de réglementation relatifs à la santé et à la sécurité. Nous estimons qu'en 1999-2000, ces entités ont dépensé environ 1,2 milliard de dollars et employé quelque 12 000 personnes dans le cadre de ces programmes de réglementation. Les entités voient à la gestion d'environ 85 lois et 250 règlements. Les objectifs des programmes vont du contrôle des substances chimiques toxiques au maintien de la salubrité des aliments et à celui de la sûreté des médicaments et des centrales nucléaires.

24.3 La politique de réglementation du gouvernement a pour objectif de promouvoir l'élaboration et la mise en oeuvre de programmes de réglementation efficaces. Comme la mesure du rendement comporte des lacunes, on ne dispose pas de renseignements suffisants pour évaluer la rentabilité des programmes de réglementation relatifs à la santé et à la sécurité.

24.4 Au cours de la dernière décennie, nos vérifications des programmes de réglementation fédérale relatifs à la santé et à la sécurité ont mis en évidence de nombreuses situations où les organismes de réglementation n'avaient pas répondu aux attentes de la politique de réglementation du gouvernement. Bien que l'efficacité ne puisse être jugée uniquement en fonction de la conformité ou de la non-conformité aux politiques, il reste que des programmes bien structurés améliorent la rentabilité et réduisent les risques d'échec de la réglementation.

24.5 L'amélioration de la structure et de la mise en oeuvre des programmes de réglementation fédérale relatifs à la santé et à la sécurité exigera que des mesures soient prises à l'échelle du gouvernement et par les organismes de réglementation responsables. Plus précisément, nous insistons sur la nécessité de veiller à ce que :

- le gouvernement explique aux Canadiens et aux groupes chargés de la réglementation et de l'inspection les priorités des programmes de réglementation relatifs à la santé et à la sécurité, en particulier la façon dont il équilibre l'objectif de protection de la population canadienne, les préoccupations budgétaires et l'atteinte des objectifs économiques;
- des renseignements fiables existent sur le niveau de risque et la mesure dans laquelle celui-ci est — et peut être — contrôlé;
- selon les priorités établies en fonction de l'évaluation du risque, les organismes de réglementation aient des ressources financières et humaines suffisantes;
- le gouvernement précise les principaux objectifs en matière de santé et de sécurité qui ne peuvent être réalisés que par la coopération interministérielle, et à ce que les autorités évaluent le rendement des cadres supérieurs en fonction de l'atteinte de ces objectifs;
- le gouvernement soumette annuellement des rapports au Parlement sur l'efficacité générale des programmes de réglementation relatifs à la santé et à la sécurité, notamment des rapports provenant des principaux organismes de réglementation et portant sur la réalisation des objectifs qui exigent une étroite coopération interministérielle.

Contexte et autres observations

24.6 Nous avons entrepris la présente vérification afin de préciser :

- les grandes tendances et les principaux défis auxquels sont confrontés les organismes de réglementation dans le domaine de la santé et de la sécurité;
- le profil des forces et des faiblesses récurrentes dans la structure et la mise en oeuvre;
- les mesures qui pourraient être prises pour améliorer de façon notable la structure et la mise en oeuvre des programmes de réglementation.

24.7 Nous avons utilisé les éléments clés de la politique de réglementation du gouvernement pour organiser l'information sur le profil des forces et des faiblesses. Nos constatations s'appuient sur les résultats de nos présentes vérifications qui portent sur les programmes d'inspection des aliments, la réglementation des centrales nucléaires et le régime de réglementation des produits biologiques à Santé Canada, ainsi que sur les vérifications de suivi concernant la protection des végétaux et la santé des animaux, la réglementation de la sécurité du système de navigation aérienne à Transports Canada et la réglementation des pipelines terrestres. Elles s'appuient aussi sur les conclusions de rapports antérieurs du vérificateur général et du commissaire à l'environnement et au développement durable. Nous avons en outre tenu compte des constatations de comités parlementaires et de rapports du gouvernement et d'organismes non gouvernementaux.

24.8 Les Canadiens sont préoccupés par les risques liés à la santé et à la sécurité. Les crises ou les échecs de la réglementation exacerbent ces inquiétudes. Toutefois, le gouvernement ne peut éliminer tous les risques. Les Canadiens devraient obtenir des renseignements faciles à comprendre sur les risques en matière de santé et de sécurité et être consultés sur les choix à faire.

24.9 La confiance du public dans l'usage que fait le gouvernement des sciences et de la technologie pour protéger la santé et la sécurité de la population canadienne a été ébranlée par de récentes crises, notamment les préoccupations concernant la sécurité de l'approvisionnement en sang analysées par la Commission d'enquête sur l'approvisionnement en sang au Canada (Commission Krever). Il y aurait lieu de recourir davantage à des comités consultatifs d'experts indépendants pour obtenir des avis et conférer une plus grande crédibilité aux efforts de réglementation.

24.10 En vertu de la Constitution — et dans la pratique — le gouvernement fédéral partage souvent avec les provinces la responsabilité en matière de protection de la santé et de la sécurité. La coopération s'impose rapidement comme une démarche obligatoire, plutôt que comme une question de choix. Les risques prennent de plus en plus une dimension mondiale et exigent des mesures à l'échelle multinationale. Les normes et les approches réglementaires des pays sont en voie d'harmonisation grâce aux traités commerciaux ou aux accords internationaux. Cette tendance signifie que les organismes de réglementation du Canada devraient coopérer afin de présenter une position canadienne solide aux séances internationales d'établissement de normes. Toutes les parties ont donc intérêt à collaborer et à participer à l'élaboration d'un plan de réglementation nationale en matière de santé et de sécurité.

Le Bureau du Conseil privé indique que, même si le gouvernement estime que sa politique de réglementation est valable, il partage les préoccupations du Bureau du vérificateur général. Il reconnait la nécessité de faire en sorte que les organismes de réglementation aient les moyens de respecter les objectifs de cette politique, à savoir élaborer de bons règlements et de bons programmes réglementaires et les mettre en oeuvre de manière adéquate.

Agence canadienne d'inspection des aliments

Les programmes d'inspection des aliments

Chapitre 25 – Points saillants

25.1 La plupart des pays étrangers qui importent nos produits ont examiné les programmes d'inspection de l'Agence et ils les voient généralement d'un bon oeil. Cette rétroaction nous procure une certaine assurance que ces programmes contribuent à la salubrité de l'approvisionnement alimentaire canadien.

25.2 Depuis sa création en avril 1997, l'Agence a lancé un certain nombre d'initiatives visant à améliorer l'efficience et l'efficacité des services fédéraux d'inspection des aliments — l'une des principales raisons de sa création. Mentionnons notamment la mise en place d'un système d'inspection intégré (SII) pour favoriser une plus grande cohérence entre les programmes d'inspection, et l'adoption d'une approche fondée sur les principes de l'analyse des risques et de la maîtrise des points critiques (hazard analysis and critical control point – ou approche HACCP). Il s'agit d'un outil axé sur la prévention qui, pour améliorer la salubrité des aliments, mise sur l'évaluation des risques et l'établissement de systèmes de contrôle plutôt que sur la confiance dans l'analyse du produit final.

25.3 L'Agence a réalisé des progrès dans le cadre de bon nombre de ces initiatives, même si ceux-ci ont été variables, voire peu convaincants dans un petit nombre de cas. Nous avons constaté que l'Agence a éprouvé des difficultés à mettre en place un processus qui permette l'affectation des ressources en fonction du risque. Il s'ensuit qu'elle ne peut faire la preuve qu'elle a réparti ses ressources de façon judicieuse entre ses programmes d'inspection, sur la base du risque. Ce processus est particulièrement nécessaire dans le secteur, en pleine expansion, des aliments importés, qui est évalué à 15 milliards de dollars, et dans celui des établissements non enregistrés au fédéral, qui représente près de la moitié de l'industrie de la transformation des aliments. Nous avons également constaté que l'Agence a modifié son approche d'inspection dans le second de ces secteurs sans évaluer suffisamment les risques globaux et les options possibles pour les gérer. Un autre sujet de préoccupation est l'absence de stratégie officielle de mise en oeuvre de l'approche HACCP, et les écueils auxquels s'est heurté le SII.

25.4 Nous avons décelé des problèmes au chapitre des activités de contrôle de la conformité. Nous avons examiné 21 dossiers d'inspection provenant d'établissements qui avaient dû procéder à des rappels d'aliments ou fait l'objet de poursuites au cours des deux années précédentes. En 1999-2000, l'Agence a participé à 243 rappels et a gagné 59 poursuites. Nous avons constaté que dans 16 cas, le même problème ou un problème semblable persistait depuis plusieurs mois et, dans certains cas, depuis des années. Les mesures d'application que l'on a prises n'ont pas été suffisantes pour permettre à l'Agence d'atteindre son objectif, soit la correction rapide du problème de non-conformité; cette lacune tient soit aux limites de la législation, soit au manque de sévérité de la mesure prise par l'inspecteur.

25.5 Les moyens de mesurer le succès des initiatives et, de façon plus générale, le rendement de l'Agence pour ce qui est de l'atteinte de ses objectifs constituent une autre source de préoccupation. Nous avons constaté que l'Agence n'avait pas établi d'attentes ni de mesure de rendement pour déterminer si ses initiatives et activités contribuaient à l'efficience et à l'efficacité du système d'inspection des aliments. Notre évaluation annuelle du rapport sur le rendement de l'Agence a toujours mis en lumière la même lacune, soit le fait que le lecteur ne dispose pas de l'information nécessaire pour comprendre dans quelle mesure l'Agence a atteint ses objectifs.

Contexte et autres observations

25.6 L'Agence canadienne d'inspection des aliments est issue de la fusion des programmes de salubrité et d'inspection des aliments de trois ministères fédéraux : Agriculture et Agroalimentaire Canada, Santé Canada et

Pêches et Océans Canada. Elle compte à l'heure actuelle quelque 4 400 employés disséminés dans tout le pays, et gère des dépenses de 416 millions de dollars. Ses principales activités sont axées sur la sécurité de l'approvisionnement alimentaire, mais l'Agence s'intéresse également à la santé des animaux et à la protection des végétaux.

25.7 L'Agence n'assume pas seule la responsabilité à l'égard de la salubrité des aliments. Elle la partage avec d'autres ministères fédéraux et avec les autorités provinciales, territoriales et municipales. L'industrie et les consommateurs ont aussi un rôle de premier plan à jouer. Santé Canada est chargé d'établir les politiques et les normes en matière d'innocuité et de qualité nutritionnelle des aliments. L'Agence exécute les programmes fédéraux d'inspection conçus pour faire respecter ces politiques et ces normes.

25.8 L'Agence évolue dans un environnement complexe qui est la résultante de nombreux facteurs, dont l'évolution des risques alimentaires, des technologies, des méthodes d'inspection, des exigences internationales, des tendances à la consommation et des perceptions des consommateurs.

25.9 Notre vérification s'est attachée à évaluer comment l'Agence gère l'inspection des aliments en vue d'atténuer les menaces à leur salubrité.

25.10 Nous avons constaté qu'une stratégie officielle était nécessaire pour la mise en oeuvre de l'approche HACCP. Il y a lieu de dresser un plan pour la période de transition, lequel devra préciser comment gérer les ressources pendant cette période. En outre, l'Agence n'a pas recueilli suffisamment d'information pour pouvoir mesurer le succès de cette approche pour ce qui est d'améliorer la salubrité des aliments. Le remaniement de cette approche dans les industries des viandes et sa mise en oeuvre pour exiger des établissements qu'ils procèdent à du dépistage avant et après l'abattage, sous le contrôle et la surveillance continus du gouvernement, pourraient prendre de nombreuses années. Et il faudra sans doute beaucoup de temps aussi pour lancer un programme de réduction des agents pathogènes dans ces industries. Cela contraste avec les importants progrès enregistrés dans l'industrie avicole.

25.11 On note d'importantes lacunes dans l'information dont l'Agence dispose sur la fréquence des toxi-infections alimentaires chez les humains et sur la prévalence des agents pathogènes dans l'approvisionnement alimentaire. Le problème se trouve compliqué par le fait que ce n'est pas elle qui est chargée de réunir une partie de cette information. Toutefois, sans une telle information, il devient plus difficile de gérer les menaces à la salubrité des aliments et de mesurer le succès des initiatives de l'Agence et leur contribution à la salubrité de l'approvisionnement alimentaire.

25.12 L'Agence a consulté les provinces, l'industrie et le public concernant certains, mais non la totalité, des projets et enjeux importants. Il s'ensuit qu'elle a raté des occasions d'ouvrir un vaste débat public sur d'importantes questions, dont les suivantes : compte tenu de son mandat, dans quelle mesure l'Agence devrait-elle inspecter le secteur non enregistré au fédéral? L'Agence devrait-elle continuer de laisser à l'industrie une latitude aussi considérable dans la mise en oeuvre de l'approche HACCP? Devrait-elle donner le ton à l'échelle internationale en mettant en oeuvre une approche HACCP remaniée dans l'industrie des viandes? Il est important que l'Agence invite les parties intéressées, y compris les parlementaires et le public, à participer à un débat sur ces questions.

On trouvera dans le chapitre les réponses de l'Agence canadienne d'inspection des aliments. L'Agence accepte toutes nos recommandations, sauf une. Elle a fait état d'un certain nombre de mesures qu'elle est en voie de prendre ou qu'elle entend prendre pour y donner suite. L'Agence n'est pas d'accord avec notre recommandation pour ce qui est du secteur non enregistré au fédéral. Sa position est reflétée dans sa réponse qui suit le paragraphe 25.82.

Santé Canada

Le régime de réglementation des produits biologiques

Chapitre 26 – Points saillants

26.1 Il ressort de notre vérification du régime de réglementation établi par Santé Canada pour les produits biologiques, que le Ministère a adopté une approche raisonnable pour l'élaboration et l'application de cadres et de stratégies servant à réglementer différents produits biologiques (sang et produits sanguins, cellules, tissus et organes d'origine humaine ou animale, vaccins et autres médicaments d'origine biologique). Nos travaux portent sur la gestion du régime réglementant les produits biologiques. Nos conclusions n'ont donc pas trait à l'efficacité de règlements précis ni à l'innocuité de produits particuliers.

26.2 Le Ministère a d'importants défis à relever. Il doit adopter les mesures suivantes :

- établir un cadre d'analyse plus précis pour permettre de déterminer l'approche qui, en matière de réglementation, convient le mieux dans une situation donnée;
- faire en sorte que les règlements soient à jour;
- recruter suffisamment d'employés qualifiés pour faire face aux progrès technologiques rapides dans le domaine des produits biologiques;
- mettre sur pied des bases de données suffisantes pour pouvoir traiter, analyser et diffuser adéquatement l'information sur les réactions et les effets indésirables.

26.3 En général, nous avons constaté que le Ministère a adopté une approche proactive pour la détermination des risques que présentent les produits biologiques pour la santé et la sécurité des Canadiens et des Canadiennes. Même si les connaissances scientifiques relativement à la xénotransplantation (le transfert à des êtres humains de cellules, de tissus et d'organes vivants non humains provenant d'animaux) ne sont pas encore au point, le Ministère a pris l'initiative de prévoir un régime de réglementation pour les xénogreffes. Toutefois, la mise en oeuvre du régime de réglementation pour la transplantation de tissus et d'organes humains a connu de nombreux retards. Des transplantations de ce type sont effectuées dans des hôpitaux depuis un certain nombre d'années.

Contexte et autres observations

26.4 Santé Canada a la responsabilité de réglementer les produits biologiques en vertu de la *Loi sur les aliments et drogues* et de son règlement d'application. L'objectif du Ministère est ainsi de veiller à ce que les produits biologiques disponibles au Canada soient sûrs, efficaces et de grande qualité. Le Bureau des produits biologiques et radiopharmaceutiques s'acquitte d'une bonne partie de cette tâche avec l'aide de plusieurs autres bureaux au sein de la Direction des produits thérapeutiques de la Direction générale des produits de santé et des aliments. La Direction générale de la santé de la population et de la santé publique exerce également certaines activités de surveillance.

26.5 L'innocuité des produits biologiques constitue un aspect important de la santé publique. Les progrès scientifiques rapides ont eu pour effet d'accroître les difficultés reliées à la réglementation. Bon nombre des lois fédérales qui régissent la santé et la sécurité ont été élaborées il y a quelques décennies. Grâce à la science, de nouveaux produits qui, jusqu'à tout récemment, auraient défié l'imagination, voient le jour. Certains produits et certaines pratiques comportent des risques possibles pour la santé et soulèvent des questions épineuses auxquelles la législation actuelle n'est peut-être pas vraiment en mesure de répondre. Il importe que la réglementation demeure à jour. Il faut aussi veiller à ce que les instruments nécessaires pour mettre en place des règlements — ou d'autres interventions — soient également à jour et suffisamment souples pour s'adapter à des besoins qui ne cessent d'évoluer.

26.6 Le Ministère suit une approche traditionnelle prescriptive pour réglementer la plupart des produits biologiques. Ce genre de cadre de réglementation est bien établi et offre certains avantages. Santé Canada estime cependant que ce cadre n'est pas suffisamment souple pour permettre de réglementer certains produits nouveaux et d'autres produits biologiques résultant des progrès technologiques. En conséquence, le Ministère compte adopter une approche fondée sur des normes en matière de réglementation du sang, des tissus et des organes ainsi que des xénogreffes. Suivant cette approche, des organismes indépendants d'élaboration de normes mettent au point des normes, de concert avec Santé Canada et d'autres parties intéressées.

26.7 Le *Règlement sur le traitement et la distribution du sperme destiné à la reproduction assistée* (appelé ci-après Règlement sur le sperme) était le seul cadre de réglementation touchant les produits biologiques qui intègrent, au moyen de renvois dans le Règlement, des normes élaborées par une tierce partie. Bien que cette approche semble comporter certains avantages, notamment la souplesse nécessaire pour s'adapter à l'évolution rapide de la technologie, certaines questions importantes méritent d'être examinées. Le Ministère doit s'assurer qu'une vérification de la conformité est effectuée de même qu'une reddition de comptes dans le cas d'un règlement qui comporte des renvois aux propres normes techniques du Ministère. Le Ministère doit appliquer les enseignements tirés de la mise en oeuvre du Règlement sur le sperme lorsqu'il élaborera des cadres de réglementation fondés sur des normes, le cas échéant.

Le présent chapitre comprend les réponses de Santé Canada aux recommandations que nous avons formulées. Le Ministère accepte nos recommandations et indique les mesures qu'il prend à l'heure actuelle ou qu'il entend prendre à l'égard des questions soulevées.

Commission canadienne de sûreté nucléaire

La réglementation des centrales nucléaires

Chapitre 27 – Points saillants

27.1 La Commission canadienne de sûreté nucléaire (CCSN) doit améliorer son régime de réglementation des centrales nucléaires pour continuer de protéger la santé et la sécurité des Canadiens.

27.2 La CCSN exerce une surveillance continue de la mesure dans laquelle les titulaires de permis de réacteurs nucléaires (ou réacteurs de puissance) se conforment aux exigences réglementaires. Toutefois, ses activités de réglementation ne sont pas basées sur un système rigoureux et bien documenté d'analyse des risques, et les cotes qualifiant le rendement des titulaires de permis (acceptable, acceptable sous condition ou inacceptable) ne sont pas claires. En outre, son système de contrôle de la conformité aux exigences réglementaires et de leur application n'a pas encore été finalisé. Par conséquent, la CCSN ne peut démontrer de façon adéquate qu'elle atteint les objectifs de sûreté visant à règlementer les centrales nucléaires.

27.3 À l'instar d'autres organismes de réglementation nucléaire, la CCSN éprouve de sérieuses difficultés à recruter et à retenir du personnel qualifié. Jointe au fait que son régime de réglementation repose largement sur l'expertise et le jugement de son personnel, l'insuffisance de sa capacité en ressources humaines pourrait nuire à son aptitude à bien fonctionner dans l'avenir.

Contexte et autres observations

27.4 La *Loi sur la sûreté et la réglementation nucléaires* est entrée en vigueur le 31 mai 2000. Elle a établi la Commission canadienne de sûreté nucléaire en remplacement de la Commission de contrôle de l'énergie atomique. La CCSN est chargée de réglementer l'utilisation de l'énergie nucléaire au Canada afin de protéger la santé, la sûreté, la sécurité et l'environnement. Notre vérification avait pour objet les activités de réglementation et de délivrance de permis d'exploitation visant les centrales nucléaires.

27.5 La CCSN compte 440 employés. Son administration centrale se trouve à Ottawa. Elle maintient un bureau de site à chacune des centrales nucléaires, où son personnel veille à ce que le titulaire de permis se conforme aux règlements et aux conditions du permis. Au cours de l'exercice 2000, la totalité des coûts de la CCSN s'est chiffrée à 59 millions de dollars.

27.6 En juillet 1999, on comptait quelque 440 réacteurs nucléaires au monde, dont 22 au Canada — 20 réacteurs nucléaires en Ontario, un au Québec et un au Nouveau-Brunswick. Les États-Unis possèdent 104 réacteurs nucléaires.

La Commission canadienne de sûreté nucléaire est d'accord avec nos recommandations et elle prend des mesures pour les mettre en oeuvre.

Suivi de recommandations antérieures sur des programmes de réglementation relatifs à la santé et la sécurité

Chapitre 28 – Points saillants

28.1 Le présent chapitre expose le suivi de trois vérifications portant sur les programmes fédéraux de réglementation relatifs à la santé et à la sécurité qui ont déjà fait l'objet d'un rapport. Le segment sur la protection des végétaux et la santé des animaux constitue le suivi du suivi qui a été présenté dans le chapitre 28 du Rapport de 1998.

28.2 Depuis notre vérification de 1996 sur la protection des végétaux et la santé des animaux, des mesures ont été prises au sein de l'Agence canadienne d'inspection des aliments pour donner suite à nos recommandations concernant l'évaluation des risques et les nouveaux modes de prestation des services; cependant, il y a encore à faire. Comme bon nombre de nos recommandations portaient sur des mesures à long terme, nous ne nous attendions pas à ce qu'elles aient été complètement mises en oeuvre. Les progrès sont satisfaisants, sauf dans plusieurs domaines particuliers.

28.3 Transports Canada a fait des progrès satisfaisants dans les domaines de l'analyse des risques, de la vérification et de l'inspection. Toutefois, il n'a pas encore effectué ni prévu d'examen formel de la qualité des données du Système de comptes rendus quotidiens des événements de l'aviation civile (CADORS) ou de toutes les autres données sur le rendement de la sécurité que lui fournit régulièrement NAV CANADA. Le Ministère n'a pas non plus encore établi de processus formel pour rapprocher les données qu'il reçoit de NAV CANADA et celles du système de compte rendu des incidents du Bureau de la sécurité des transports afin de s'assurer de leur intégralité.

28.4 L'Office national de l'énergie a fait des efforts raisonnables pour remplir ses engagements et mettre en oeuvre nos recommandations. Ses progrès sont plus lents que prévu dans certains domaines, mais tout est en place pour assurer une mise en oeuvre complète dans un avenir rapproché. L'Office a confié à des cadres supérieurs la bonne marche de ses initiatives en ce sens, ce qui témoigne de son sérieux.

Secrétariat du Conseil du Trésor

Rapport annuel sur les marchés du gouvernement — 1998

Chapitre 29 – Points saillants

29.1 Le présent chapitre est consacré au *Rapport annuel sur les marchés* du Secrétariat du Conseil du Trésor pour l'année civile 1998. Le Rapport donne aux Canadiens un aperçu statistique annuel du nombre de marchés passés conformément au *Règlement sur les marchés de l'État* et à la *Politique sur les marchés* du gouvernement, et de la valeur qu'ils représentent. La valeur des marchés déclarés en 1998 s'établissait à 13,4 milliards de dollars (le Programme d'entraînement en vol de l'OTAN au Canada, de 2,99 milliards de dollars étant compris), soit plus d'un tiers du coût de fonctionnement du gouvernement de 35,7 milliards de dollars.

29.2 Les mécanismes en place pour recueillir les données nécessaires à la préparation du Rapport permettent de saisir la plupart des renseignements requis et offrent la possibilité de préparer un document valable et utile. Néanmoins, notre vérification a mis au jour des lacunes importantes en ce qui touche la validité, la fiabilité, la transparence et la pertinence des données communiquées dans le Rapport. (Nous définissons ces termes dans le chapitre.)

29.3 Plus précisément, les lacunes relevées dans le Rapport de 1998 se rapportent aux aspects qui suivent :

- **La validité :** Les transactions liées aux modifications apportées aux marchés, aux offres à commandes et aux paiements effectués par cartes de crédit figurent parmi les renseignements fournis sur les principales activités liées à la passation des marchés. L'information sur ces transactions devrait figurer dans des parties distinctes du Rapport.
- **La fiabilité :** La vérification a permis de découvrir que l'information fournie sur le nombre de marchés et la valeur monétaire qu'ils représentent était incomplète. Par exemple, le Rapport restait silencieux sur des marchés représentant au moins 320 millions de dollars, dont il aurait fallu rendre compte. Nous avons également constaté que l'information fournie sur la classification des marchés était douteuse.
- **La transparence :** Le Rapport de 1998 ne contient pas suffisamment de notes explicatives ou de liens pour permettre au lecteur non connaisseur de comprendre l'approche adoptée pour la préparation du Rapport et la signification des principaux termes utilisés dans la présentation des données.
- **La pertinence :** Comme les rapports parus antérieurement, le Rapport de 1998 a été publié plus d'un an après l'expiration de la période de référence, ce qui en affaiblit la pertinence. En outre, il ne contient pas suffisamment de renseignements sur des questions précises pour répondre aux besoins du public et des parlementaires. Ces besoins ont été établis par des comités parlementaires.

29.4 Les données fournies ne nous permettent pas de quantifier l'effet de plusieurs de ces lacunes sur le Rapport, ni d'évaluer leur interaction réciproque. Par conséquent, nous ne pouvons déterminer dans quelle mesure ces lacunes nuisent à la présentation fidèle du Rapport dans son ensemble.

Contexte et autres observations

29.5 Le Bureau du vérificateur général a toujours insisté pour que l'on publie de façon fidèle et pertinente des données statistiques sur la passation des marchés par le gouvernement. Nous avons soulevé la question pour la première fois en 1982 et plus récemment dans nos rapports parus en 1991 et en 1997. L'absence de renseignements adéquats sur la passation des marchés est la source des préoccupations qui ont retenu l'attention du Comité permanent des opérations gouvernementales de la Chambre des communes dans les rapports qu'il a publiés en 1995 et en 1997. En 1999, le Comité des comptes publics a également exprimé des préoccupations au sujet de l'information communiquée et il a recommandé que les rapports futurs soient vérifiés.

29.6 Nous recommandons que le Secrétariat du Conseil du Trésor rende le *Rapport annuel sur les marchés* plus utile en présentant séparément l'information concernant les modifications, les offres à commandes et les paiements effectués par cartes de crédit. Nous recommandons également qu'il précise dans le Rapport les raisons pour lesquelles un marché est attribué à un fournisseur en particulier. Il conviendrait en outre que le Secrétariat du Conseil du Trésor conçoive des systèmes d'assurance de la qualité qu'il appliquerait aux données utilisées aux fins de la préparation du Rapport. Le Secrétariat devrait également veiller à résoudre les questions d'ordre conceptuel et les questions liées à la présentation que nous avons cernées. Un peu plus d'efforts et d'attention de la part des responsables des achats permettront d'apporter d'importantes améliorations à la communication des données statistiques.

Comme on le signale dans la section « Événement postérieur » (paragraphe 29.76), le Secrétariat du Conseil du Trésor a déjà pris des mesures pour répondre à un certain nombre de nos préoccupations. Dans ses réponses à nos recommandations, le Secrétariat indique qu'il poursuit activement la mise en oeuvre de certaines d'entre elles et qu'il prend les autres en compte.

Pêches et Océans

Les effets de la salmoniculture en Colombie-Britannique sur la gestion des stocks de saumon sauvage

Chapitre 30 – Points saillants

30.1 Pêches et Océans gère l'industrie de la salmoniculture en supposant qu'elle ne pose qu'un faible risque global pour le saumon sauvage et son habitat. Toutefois, le Ministère ne s'acquitte pas pleinement des obligations que lui impose la *Loi sur les pêches* de protéger les stocks de saumon sauvage du Pacifique et leur habitat contre les effets de la salmoniculture. Nous avons constaté que le Ministère :

- ne s'acquitte pas pleinement de ses responsabilités réglementaires actuelles concernant l'application de la *Loi sur les pêches* à l'égard des exploitations salmonicoles;
- effectue de la recherche et collabore avec la province de la Colombie-Britannique (C.-B.) à l'élaboration d'un cadre de réglementation de la salmoniculture, mais la recherche et la surveillance visant à évaluer les effets des exploitations salmonicoles présentent des lacunes;
- n'a pas établi de plan officiel de gestion des risques et d'évaluation des éventuels effets environnementaux cumulatifs que pourraient comporter les propositions de nouveaux établissements salmonicoles, dans l'éventualité où la décision était prise de développer davantage l'industrie.

30.2 Pour atteindre l'objectif d'assurer la coexistence d'une pêche durable du saumon et de l'industrie salmonicole, le Ministère doit de toute urgence combler ces lacunes en consultation avec la province. Il a récemment obtenu des fonds supplémentaires dont il prévoit se servir pour donner suite aux préoccupations de l'industrie et du public. Certains de ses projets portent sur la gestion de l'habitat, d'autres comportent des études supplémentaires concernant les effets d'exploitations salmonicoles sur l'habitat du poisson ainsi que les effets des interactions entre les stocks salmonicoles et sauvages. Le Ministère a avisé la province de la C.-B. et l'industrie salmonicole qu'elle entend procéder à l'évaluation de toutes les exploitations piscicoles afin d'assurer leur conformité à la *Loi sur les pêches*.

Contexte et autres observations

30.3 La présente vérification est la troisième que nous effectuons depuis 1997, portant sur les programmes du Ministère en matière de gestion du saumon du Pacifique. Les deux premières vérifications portaient sur la protection de l'habitat et sur la gestion des pêches du saumon. Nous avions alors constaté que la perte d'habitat du saumon se poursuivait et que certains stocks de saumon sauvage étaient en déclin. Au fil du temps, la salmoniculture pourrait exercer davantage de pression sur les stocks de saumon sauvage, surtout si l'industrie prend de l'expansion. Nous avons constaté que le Ministère n'avait pas élaboré de plan d'évaluation et de gestion des risques à long terme.

30.4 Comme peu d'études scientifiques s'appliquent directement à la situation qui règne en C.-B., il est difficile de se prononcer sur les effets de la salmoniculture. Des preuves scientifiques récentes indiquant que des saumons de l'Atlantique évadés se reproduisent dans des cours d'eau de la C.-B. et l'expansion éventuelle de l'industrie salmonicole soulèvent de nouvelles questions quant aux effets sur les stocks de saumon sauvage, notamment les effets cumulatifs sur l'environnement et les ressources halieutiques.

30.5 L'élevage du saumon de l'Atlantique débute dans des écloseries d'eau douce, puis, à la phase juvénile, les poissons sont transférés dans des enclos ouverts installés dans les eaux côtières de la C.-B. pour y terminer leur croissance avant d'être récoltés à l'état adulte. C'est à l'étape de leur élevage en enclos ouvert que peuvent se produire des interactions avec le saumon sauvage et son habitat. En outre, les enclos ouverts sont susceptibles d'être endommagés, ce qui peut entraîner l'évasion de saumons d'élevage.

Le Ministère accepte la teneur du présent chapitre.

Pêches et Océans

La gestion de la flotte

Chapitre 31 – Points saillants

31.1 À notre avis, Pêches et Océans ne gère pas sa flotte de façon rentable. On constate de grosses différences au niveau des pratiques et des procédures employées par les cinq régions qui contrôlent l'exploitation de la flotte. Étant donné que chaque région a ses propres pratiques, procédures d'exploitation et mécanismes de soutien, le Ministère n'a pas toujours toute la souplesse voulue pour partager les ressources et augmenter la productivité lors de la prestation des services de la flotte.

31.2 Voici les problèmes que nous avons constatés au niveau des pratiques de gestion qui sont importantes pour assurer un fonctionnement rentable de la flotte :

- Le Ministère n'a pas établi d'attentes claires, concrètes, réalistes et convenues en ce qui a trait au rendement de la flotte.
- L'horizon de financement est d'un an seulement, même si la flotte représente une activité à haute intensité de capital, dont les coûts fixes sont élevés.
- Il n'y a pas d'accords de service entre les programmes du Ministère et la flotte, qui établissent clairement les ententes sur les normes de rendement et le financement.
- Les processus budgétaires internes ne favorisent pas la reddition de comptes pour les activités de la flotte.
- Les systèmes d'information ne sont pas intégrés et les gestionnaires ne reçoivent pas en temps voulu des données fiables sur le rendement et les coûts.
- La méthode d'imputation des coûts aux programmes n'incite pas à utiliser les navires.
- La flotte n'emploie pas la méthode du cycle de vie pour gérer ses navires.
- La flotte ne gère pas de façon appropriée sa plus grande dépense de fonctionnement, les ressources humaines.
- Le soutien à terre est trop important, compte tenu de la taille actuelle de la flotte.
- Il y a des lacunes dans les rapports d'intendance présentés au Parlement.

31.3 En réglant ces questions par ordre de priorité (on ne peut pas les régler toutes à la fois), le Ministère doit aussi envisager d'établir une stratégie à long terme pour renouveler sa flotte vieillissante. À cet effet, il devrait prendre en considération l'évolution des besoins des programmes, l'impact des progrès technologiques et la diversification éventuelle des modes d'acquisition des services nécessaires.

Contexte et autres observations

31.4 Au 31 mars 2000, la flotte comptait 144 navires (122 navires étaient en service pendant une certaine période en 1999-2000), qui allaient de la petite embarcation multitâche de 8 mètres au brise-glace lourd de golfe de 111 mètres. La flotte joue un rôle essentiel dans la prestation de services comme les aides à la navigation, le déglaçage, le volet maritime de recherche et sauvetage, ainsi que la prévention de la pollution marine et l'intervention environnementale. Elle appuie aussi le Ministère dans ses activités concernant l'application des règlements sur les pêches, les sciences halieutiques, l'hydrographie, l'océanographie et les autres sciences de la mer.

31.5 En 1999-2000, Pêches et Océans a dépensé environ 229 millions de dollars pour l'exploitation, l'entretien et le remplacement d'immobilisations de la flotte. En outre, un montant estimatif de 52 millions de dollars a été dépensé pour le soutien à terre.

31.6 Les ressources humaines de la flotte sont sa plus grande dépense de fonctionnement. Au 1er avril 2000, il y avait 756 officiers et 1 308 membres d'équipage affectés aux navires, mais le nombre d'employés varie au cours de l'année en fonction des besoins saisonniers. En outre, selon nos estimations prudentes, il y a environ 447 postes (équivalents temps plein) qui assurent à terre un soutien direct à la flotte et quelque 55 postes au Collège de la Garde côtière canadienne qui fournissent directement une formation aux membres de la flotte.

31.7 Notre vérification a porté sur les 47 gros navires qui étaient en service pendant une certaine période en 1999-2000, sur les navires désarmés, ainsi que sur le personnel navigant et sur le personnel à terre qui participaient directement à la gestion et à l'exploitation de la flotte. Les gros navires représentent chaque année entre 70 p. 100 et 80 p. 100 du coût de fonctionnement de la flotte.

31.8 Depuis 1994, la flotte a dû faire face à des compressions budgétaires importantes, à la fusion (en 1995) de l'ancienne flotte de la Garde côtière canadienne de Transports Canada avec les flottes de Pêches et Océans (l'une chargée des activités scientifiques et l'autre, de l'application des règlements sur les pêches) et à d'autres restrictions financières liées à la fusion (de 1996 à aujourd'hui). Nous nous attendions à trouver certains problèmes de gestion, compte tenu des changements que la flotte avait subis; nous sommes toutefois préoccupés par le nombre et l'importance des questions que nous avons relevées. À notre avis, le règlement de ces questions requiert une action rapide de la direction.

31.9 Les questions soulevées dans le présent chapitre sont de taille et représentent donc un défi pour la direction, mais il convient de souligner que le Ministère a pris plusieurs initiatives qui sont importantes pour le fonctionnement de la flotte. La principale est l'application courante du Code international de gestion pour la sécurité de l'exploitation des navires et la prévention de la pollution (Code ISM). En outre, en 1999-2000, les responsables des programmes et de la flotte ont identifié les navires existants que la flotte pouvait se permettre d'exploiter, dans les limites du budget alloué, tout en fournissant le meilleur service possible. Cet exercice n'a pas permis de répondre aux problèmes susmentionnés, mais il pourrait apporter une certaine stabilité au cadre de fonctionnement de la flotte.

La réponse globale du Ministère est insérée à la suite du paragraphe 31.139. Pêches et Océans accepte nos constatations et indique qu'il a lancé une étude afin d'élaborer des options stratégiques aux fins de la gestion de la flotte. À la suite de l'étude, le Ministère prévoit établir un plan d'action qui touchera sept secteurs précis englobant les questions que nous avons soulevées.

Défense nationale

La productivité des services de soutien de la Défense : un rapport d'étape

Chapitre 32 – Points saillants

32.1 La Défense nationale n'a pas encore terminé la mise en oeuvre des mesures qu'elle a prises depuis 1994 afin de se transformer en une organisation davantage axée sur le modèle de l'entreprise privée et afin de maintenir ses capacités militaires malgré la réduction des ressources financières et humaines. Elle poursuit toujours ses efforts en vue de réformer les services que nous avons examinés en 1996 et qui sont offerts en soutien aux équipages des navires, aux brigades de la Force terrestre et aux escadrons aériens des Forces canadiennes.

32.2 En 1996, nous avons signalé que la productivité des fonctions de soutien des bases/escadres, à savoir la maintenance des véhicules, l'approvisionnement et le transport, avait baissé ou qu'elle était inférieure à celle enregistrée par les fournisseurs de services similaires. Cette année, nous avons constaté qu'en raison de vastes changements apportés à l'organisation et aux processus nous ne pouvions plus mesurer la productivité. En outre, les gestionnaires des bases/escadres ne pouvaient pas nous dire s'ils étaient plus productifs ou moins productifs qu'en 1996.

32.3 Bien que le nombre de jours d'instruction produits par chaque membre du personnel des écoles des Forces canadiennes ait diminué depuis 1996, 14 écoles pourraient ne pas être en mesure d'offrir toute l'instruction individuelle requise dans l'avenir.

32.4 Les efforts déployés par la Défense nationale en vue d'accroître la productivité de la maintenance des aéronefs ont été relativement fructueux, mais la mise en place du système de gestion de la qualité FA 9000 Plus est au point mort.

32.5 Le Ministère a connu un succès limité pour ce qui est de créer un contexte plus proche du modèle de l'entreprise privée dans le cadre des initiatives de renouvellement que nous avons examinées.

- Les plans d'activités, bien qu'ils aident à rationner des ressources de plus en plus limitées, ne présentent toujours pas de mesures du rendement. Les gestionnaires s'interrogent encore sur la pertinence de l'information sur les coûts. C'est pourquoi ils ont du mal à déterminer si la productivité augmente ou diminue.
- Le transfert des budgets de fonctionnement à l'échelon le plus bas de l'organisation a semé la confusion au sujet des rôles et des responsabilités. Les gestionnaires ne possèdent ni les connaissances ni l'expérience voulues pour assumer leurs nouvelles responsabilités. Le Ministère n'a pas offert une instruction adéquate en ce qui a trait aux nouveaux systèmes d'information et la complexité des systèmes a compliqué plutôt que simplifié les initiatives de restructuration et de transfert. Le Ministère a pris un certain nombre de mesures pour régler ces problèmes.
- Le Ministère poursuit ses efforts en vue de transformer sa culture organisationnelle, mais il n'a pas encore défini les priorités en matière de changement culturel.
- Comme ou pourrait s'y attendre, les deux grands projets de diversification des modes de prestation des services qui sont le plus étroitement liés à la productivité des services de soutien de la Défense se heurtent à une forte résistance de la part des employés potentiellement touchés. Le Ministère compte réaliser des économies dès 2004.

32.6 Nous avons constaté que l'absence de progrès mesurables en ce qui concerne l'accroissement de la productivité des services de soutien est attribuable à plusieurs facteurs, notamment :

- la priorité relativement faible accordée à l'accroissement de la productivité des services de soutien de la Défense dans les nombreux programmes du Ministère;
- la nécessité de faire face continuellement à des réductions d'effectifs et à des compressions budgétaires pendant toute la période de renouvellement;
- l'absence de plan stratégique pour guider les efforts de réforme du Ministère durant la période quinquennale de renouvellement (1994 à 1999).

Contexte et autres observations

32.7 Les navires, les brigades de la Force terrestre et les escadrons aériens qui sont opérationnels peuvent compter sur un système de soutien qui, entre autres choses, assure l'administration du personnel, la maintenance et l'instruction et fournit des vivres, du carburant et du matériel. Sur un effectif d'environ 60 000 membres, quelque 36 000 personnes se consacrent aux opérations et à l'instruction tandis que les autres s'occupent principalement du soutien continu. Sur le plan financier, les services de soutien absorbent environ 45 p. 100 du budget de la Défense nationale (11 milliards de dollars). Lors de la présente vérification, nous avons examiné la mesure dans laquelle le Ministère avait réussi à améliorer la productivité des fonctions de soutien vérifiées en 1996. Ces fonctions ne représentent qu'une partie des ressources utilisées par les services de soutien. Il est important de mesurer et d'accroître la productivité des services de soutien de la Défense afin de s'assurer que les fonctions de soutien accaparent le moins possible de ressources de sorte que l'on puisse affecter un maximum de ressources aux opérations.

32.8 En 1994, pour donner suite au *Livre blanc sur la défense de 1994*, la Défense nationale a entrepris un programme quinquennal de renouvellement dans le but de consacrer un maximum de ressources au potentiel de combat des Forces canadiennes en réduisant le coût des activités de soutien. De 1994 à 1999, l'effectif militaire est passé de 76 000 à quelque 60 000 membres. L'effectif civil est passé quant à lui de 32 000 à environ 20 000 employés. Durant cette période de rapides réductions de l'effectif, la Défense nationale a effectué plusieurs déploiements importants au pays et à l'étranger.

Le présent chapitre présente la réponse de la Défense nationale (paragraphe 32.126) à nos observations et recommandations. Le Ministère souligne le fait qu'il a dû relever de nombreux défis et faire face à des priorités concurrentes qui ont entravé sa capacité d'améliorer la productivité. Des représentants du Ministère nous ont déclaré que la planification des activités les avait davantage sensibilisés à la nécessité de l'efficience et que le document qui traitera de la stratégie pour l'année 2020 présentera un cadre général du processus de changement.

La Défense nationale reconnaît que l'élaboration de données sur les coûts par activité a été lente, mais affirme que cela, par contre, n'a pas affecté le processus de prise de décisions. Le Ministère poursuit son élaboration d'un cadre de mesure du rendement.

Suivi des recommandations formulées dans des rapports antérieurs

Chapitre 33 – Points saillants

33.1 Les rapports de cette année indiquent que certaines entités ont mieux réussi que d'autres à mettre en oeuvre des mesures correctives. Bon nombre d'entre elles ont fait des progrès satisfaisants dans certains domaines, avons-nous observé, mais dans beaucoup d'autres, leurs progrès sont décevants. Certaines entités ont pris un bon départ en ce qui concerne la mise en oeuvre des changements, mais elles ont tardé à les parachever. Peu d'entités obtiennent une « note satisfaisante » pour la rapidité de la mise en oeuvre. Nous recommandons fortement à tous les ministères de déployer des efforts accrus pour accélérer le processus.

33.2 Notre vérification de 1998 de certains programmes de subventions et de contributions d'**Industrie Canada** et du **ministère du Patrimoine canadien** nous a permis de constater de piètres pratiques de gestion. Notre suivi a révélé qu'Industrie Canada donne suite de manière satisfaisante à nos recommandations. Cependant, nous avons découvert un nouveau problème — un paiement anticipé de 20 millions de dollars entraînant des frais d'intérêts pour le gouvernement pouvant atteindre 5 millions de dollars. Nous avons constaté que le ministère du Patrimoine canadien n'a pas amélioré, de façon adéquate, la gestion des subventions et des contributions dans le cadre de son Programme du multiculturalisme. Les objectifs du Programme demeurent obscurs et il subsiste encore de graves problèmes compromettant l'exercice d'une diligence raisonnable. Nous prévoyons faire de nouveau rapport l'an prochain sur les progrès réalisés par le Ministère à ce chapitre.

33.3 Notre suivi de trois chapitres antérieurs sur la gestion des pêches de l'Atlantique a révélé que **Pêches et Océans** va de l'avant avec un plan visant l'élaboration et l'approbation d'un cadre pour des pêches durables et la mise en oeuvre d'une nouvelle approche de la gestion des pêches dans l'Atlantique. Même si les plans semblent tenir compte de nos principales recommandations, le Ministère devra parachever la politique et préparer des processus, des procédures et des mesures législatives détaillés à l'appui de la nouvelle approche de gestion avant que nous ne puissions conclure que nos recommandations ont été entièrement appliquées.

33.4 Depuis que nous avons fait rapport sur **le vieillissement de la population et l'information destinée au Parlement**, le processus budgétaire est plus transparent et plus prospectif. L'ajustement des prévisions budgétaires en fonction du facteur de « prudence » figure maintenant explicitement au lieu d'être inclus dans les recettes et les dépenses prévues. De plus, on a étendu la perspective financière de deux à cinq ans, mais cela ne suffit toujours pas à montrer l'incidence du revirement démographique qui se produira entre la première et la troisième décennie du siècle.

33.5 Les ministères et organismes responsables de la planification et de la construction de l'immeuble abritant l'**administration centrale du Service canadien du renseignement de sécurité** et du complexe de **laboratoires fédéraux de santé humaine et animale** ont donné suite à la plupart des recommandations et des observations de la vérification initiale. Toutefois, les laboratoires situés à Winnipeg demeurent fortement sous-utilisés. Le Secrétariat du Conseil du Trésor n'a commencé que récemment à examiner son rôle de surveillant et ses méthodes afin d'assurer un niveau de surveillance adéquat des grands projets de l'État. Travaux publics et Services gouvernementaux Canada n'a pas réglé certaines questions relatives à la passation de marchés telles que la définition des erreurs et des omissions dans les documents contractuels et l'intégration d'incitatifs efficaces qui contribueront à réduire les coûts.

33.6 À la suite de notre vérification de la gestion du numéro d'assurance sociale (NAS), le gouvernement a pris des mesures pour améliorer l'intégrité des données du Registre d'assurance sociale. **Développement des**

ressources humaines Canada a augmenté le nombre d'enquêtes sur les fraudes et les abus touchant le NAS et il prend actuellement des mesures visant à régler d'autres problèmes cernés lors de notre vérification. Toutefois, une étude exhaustive sur l'incidence de l'utilisation du NAS s'avère toujours nécessaire pour bien comprendre les implications pratiques, économiques et politiques de celle-ci.

33.7 Le gouvernement a fait des progrès relativement à la mise en oeuvre de sa **Stratégie d'information financière**, mais il reste encore beaucoup à faire pour que les systèmes financiers et les politiques de mise en oeuvre de la comptabilité d'exercice soient en place avant l'échéance d'avril 2001. L'intégration à long terme d'une information financière de meilleure qualité dans la prise de décisions de gestion quotidienne est un défi constant.

33.8 En plus des suivis mentionnés ci-dessus, le présent chapitre comprend des rapports des suivis sur l'**Agence des douanes et du revenu du Canada,** le **ministère des Finances, Développement des ressources humaines Canada** et **Anciens Combattants Canada**. D'autres suivis figurent dans divers chapitres des rapports de 2000.

Autres observations de vérification

Chapitre 34 – Points saillants

34.1 La *Loi sur le vérificateur général* exige du vérificateur général qu'il inclue dans ses rapports les questions d'importance qui, à son avis, devraient être portées à l'attention de la Chambre des communes.

34.2 Ce chapitre joue un rôle particulier dans les rapports. D'autres chapitres présentent habituellement les constatations découlant de nos vérifications de l'optimisation des ressources ou de vérifications et d'études qui portent sur des activités du gouvernement dans son ensemble. Dans les « Autres observations de vérification », nous faisons rapport sur des questions précises dont nous avons pris connaissance au cours de nos vérifications comptables et de nos vérifications de conformité aux autorisations des comptes publics du Canada, des états financiers des sociétés d'État et d'autres entités ou au cours de nos vérifications de l'optimisation des ressources.

34.3 Dans ce chapitre, nos observations portent sur les sujets suivants :

- Énergie atomique du Canada limitée comptabilise son passif au titre du déclassement et de la remise en état des infrastructures;
- la gestion des abus et des fraudes soupçonnés dans le programme d'assurance-emploi;
- manque de clarté quant à la méthode d'établissement des taux de cotisation à l'assurance-emploi;
- investissement fédéral dans les grands projets scientifiques : l'Observatoire de neutrinos de Sudbury.

34.4 Même si chaque observation de vérification signale des questions importantes, le lecteur ne doit pas s'en servir pour tirer des conclusions au sujet de points que nous n'avons pas examinés.

La stratégie de développement durable du Bureau du vérificateur général

Chapitre 35 – Résumé

35.1 Dans notre deuxième stratégie de développement durable, nous nous engageons à aider le gouvernement fédéral à améliorer de manière continue sa gestion des questions liées à l'environnement et au développement durable et à veiller à ce que la gestion de nos propres activités soit respectueuse de l'environnement.

35.2 Nous avons fait des progrès satisfaisants en ce qui concerne la mise en oeuvre de notre première stratégie, mais nous devons encore apporter des améliorations dans plusieurs secteurs. Notre plus grand défi consiste à intégrer davantage à nos travaux de vérification les questions liées à l'environnement et au développement durable. Nous devons mieux documenter les changements apportés à notre plan d'action et nous devons aussi actualiser notre plan de formation relatif à l'environnement et au développement durable et terminer sa mise en oeuvre.

35.3 L'expérience que nous avons acquise avec la première stratégie nous a permis de simplifier notre méthode de gestion des questions liées au développement durable. Nous avons réduit le nombre de buts et d'objectifs ainsi que le nombre d'indicateurs de la performance qui servent à mesurer nos progrès. Nous avons aussi établi un lien entre nos actions et les résultats prévus. Grâce à la première stratégie, nous avons appris qu'il faut établir un équilibre entre nos aspirations sur le plan environnemental et d'autres facteurs, par exemple une meilleure qualité de vie au travail.

35.4 Au cours des trois dernières années, le Bureau — y compris le commissaire à l'environnement et au développement durable — a fait rapport au Parlement sur divers sujets, notamment la façon dont le gouvernement gère le smog, les substances toxiques, les changements climatiques, les déchets dangereux, la biodiversité et les pêches durables. Nous avons examiné la mise en oeuvre de la première série de stratégies de développement durable. Enfin, nous avons évalué la performance des ministères et des organismes et nous leur avons donné des conseils pour améliorer leur gestion des questions liées à l'environnement et au développement durable et pour réduire les répercussions environnementales de leurs propres activités.

35.5 Au cours des trois prochaines années, nous continuerons d'effectuer des vérifications sur les questions liées à l'environnement et de faire le suivi de nos vérifications précédentes. Nous prévoyons faire rapport en 2001 sur la manière dont le gouvernement fédéral gère ses responsabilités à l'égard de certaines questions de développement durable qui touchent le bassin des Grands Lacs et du Saint-Laurent.

35.6 À la suite des modifications apportées à la *Loi sur le vérificateur général* en 1995, lesquelles intégraient officiellement à notre mandat les questions liées au développement durable, 24 ministères et organismes fédéraux ont déposé leur première stratégie de développement durable à la Chambre des communes en décembre 1997. Quatre autres ministères et organismes, dont le Bureau du vérificateur général, ont volontairement soumis leur stratégie. La *Loi sur le vérificateur général* exige que les stratégies soient mises à jour tous les trois ans. La deuxième série de stratégies doit être déposée au plus tard en décembre 2000, si le Parlement siège.

35.7 Le cadre de notre stratégie de développement durable est centré sur trois grands secteurs : nos travaux de vérification, nos activités quotidiennes et nos ressources humaines. À notre avis, ce sont nos vérifications et études des organismes fédéraux qui ont les plus grandes répercussions.

35.8 Cette stratégie vise à promouvoir le développement durable parmi les parlementaires, les organismes fédéraux et la population canadienne en général. Plus précisément, elle montre aux parlementaires comment nous intégrons, en tant que bureau de vérification législative, les considérations relatives à l'environnement et au développement durable à nos activités et comment nous mesurons le succès de nos efforts.

35.9 Au cours des trois dernières années, le Bureau a porté à l'attention du Parlement et des organisations fédérales de nombreuses questions liées à l'environnement et au développement durable au moyen de vérifications comptables, d'examens spéciaux et de vérifications de l'optimisation des ressources, y compris nos examens des stratégies de développement durable. Nous avons donné des conseils par l'intermédiaire d'études et d'autres publications, notamment dans un rapport de 1999 du commissaire à l'environnement et au développement durable intitulé *Avancer dans la voie du progrès*. Ce rapport précise les attentes du commissaire pour la deuxième série de stratégies de développement durable.

35.10 Dans ce chapitre, nous présentons notre deuxième stratégie, notamment :

- une description du Bureau — notre mandat, nos travaux et l'incidence que nous désirons avoir;
- un sommaire de notre performance et les leçons tirées de notre première stratégie;
- nos objectifs, nos indicateurs de la performance et les résultats prévus pour les trois prochaines années.

Rapport du vérificateur général du Canada à la Chambre des communes – 2000

Table des matières

Volume 1 – Avril 2000

Chapitre

Avant-propos et Points saillants

1 La qualité du service

2 Développement des ressources humaines Canada – La qualité du service au niveau local

3 Citoyenneté et Immigration Canada – Le volet économique du programme canadien d'immigration

4 Affaires indiennes et du Nord Canada – L'enseignement primaire et secondaire

Chapitres 5 et 6

5 Agence des douanes et du revenu du Canada – Les voyageurs arrivant au Canada : la gestion des risques aux points d'entrée

6 Agence des douanes et du revenu du Canada et ministère des Finances – Le traitement des demandes de crédit d'impôt pour la recherche scientifique et le développement expérimental

7 Gendarmerie royale du Canada – Les services offerts aux responsables de l'application de la loi

8 Ministère des Finances – La gestion de la dette du Canada : les nouveaux défis à relever

9 La rationalisation du régime de gestion des ressources humaines : une étude de l'évolution des rôles et des responsabilités

Volume 2 – Octobre 2000

Chapitre

Avant-propos et Points saillants

10 Transports Canada – Les cessions d'aéroports : le Réseau national d'aéroports

11 Développement des ressources humaines Canada – Les subventions et les contributions

12 Les valeurs et l'éthique dans le secteur public fédéral

13 L'évaluation des capacités de gestion financière des ministères

14 Agence canadienne de développement international – La gestion des marchés et des accords de contribution

15 Santé Canada – La santé des Premières nations : suivi

Volume 2 – Octobre 2000 (suite)

Chapitre	
	Autres observations
16	Suivi des recommandations formulées dans des rapports antérieurs
17	Autres observations de vérification

Volume 3 – Décembre 2000

Chapitre	
	Questions d’une importance particulière – 2000 Avant-propos et Points saillants
18	La régie des sociétés d’État
19	L’information sur le rendement communiquée au Parlement : les progrès sont trop lents
20	La gestion ministérielle axée sur les résultats et la gestion des questions horizontales axée sur les résultats
21	Le Programme de recrutement postsecondaire de la fonction publique fédérale
22	L’élaboration de la Norme générale de classification : suivi
23	Les technologies de l’information : l’acquisition de biens et de services
	Protection de la santé et sécurité
24	Les programmes fédéraux de réglementation relatifs à la santé et à la sécurité
25	Agence canadienne d’inspection des aliments – Les programmes d’inspection des aliments
26	Santé Canada – Le régime de réglementation des produits biologiques
27	Commission canadienne de sûreté nucléaire – La réglementation des centrales nucléaires
28	Suivi de recommandations antérieures sur des programmes de réglementation relatifs à la santé et à la sécurité
29	Secrétariat du Conseil du Trésor – Rapport annuel sur les marchés du gouvernement – 1998
30	Pêches et Océans – Les effets de la salmoniculture en Colombie-Britannique sur la gestion des stocks de saumon sauvage
31	Pêches et Océans – La gestion de la flotte
32	Défense nationale – La productivité des services de soutien de la Défense : un rapport d’étape
	Autres observations et Annexes
33	Suivi des recommandations formulées dans des rapports antérieurs
34	Autres observations de vérification
35	La stratégie de développement durable du Bureau du vérificateur général

Report of the
Auditor General of Canada
to the House of Commons

Chapter 19
Reporting Performance to Parliament:
Progress Too Slow

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

© Minister of Public Works and Government Services Canada 2000
Cat. No. FA1-2000/3-19E
ISBN 0-662-29582-X
Copies françaises aussi disponibles

Chapter 19

Reporting Performance to Parliament

Progress Too Slow

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 19-5

Introduction 19-7
    A good start in 1997 19-7
    Many jurisdictions report on performance 19-7
    The Expenditure Management System 19-7
    Clarifying results and performance concepts 19-8
    Focus of the audit 19-8

Observations and Recommendations 19-8

The Expenditure Management System Since 1997 19-8
What We Expected in Reports 19-11
Some Improvement in Stating Performance Expectations 19-11
    A variety of terms used to state what is to be accomplished 19-11
    Setting concrete expectations remains a challenge 19-12
    Inconsistent use of concepts 19-13
Slow Progress in Reporting Accomplishments 19-15
    Improvements needed in reporting accomplishments 19-15
    More effort is needed to assess a program's contribution 19-17
    Evaluation findings can play an important part in reporting performance but are underused 19-18
Need to Improve Balance and Indicate Reliability of Data 19-19
    More balanced reporting needed to enhance credibility 19-19
    More attention is needed to data reliability 19-19
Performance Reporting Shows Modest Improvement 19-21
    Some departments show progress in communicating performance 19-21
    Good performance reporting overall is still some years away 19-22
Treasury Board Secretariat Leadership for Reporting 19-23
    Better electronic reporting needs to be encouraged 19-24
    Treasury Board Secretariat is focussing on collective reporting 19-24
More Involvement of Parliamentarians Is Needed 19-25
    Use by parliamentarians still limited 19-25
    Improvements proposed to the current regime for reporting to Parliament 19-25
    Members' suggestions for improvement 19-26
Changes Are Required if Performance Reporting Is to Improve 19-27
    The reporting regime has strengths 19-27
    What is the problem? 19-27
    Clear and common reporting principles are needed 19-28
    Performance is reported in a political environment 19-28
    More consideration of incentives needed 19-29
    A stronger challenge of expectations is required 19-30
    A stronger role for parliamentary committees 19-31
    Is it time for legislation? 19-31

Conclusion 19-33

About the Audit 19-35

Page

Exhibits

19.1 Terms and Concepts of Results and Performance 19-9
19.2 What Should Be in a Performance Report 19-11
19.3 Assessing Statements of Expected Performance 19-13
19.4 Statements of Performance Expectations – Examples 19-14
19.5 Assessing How Well Accomplishments Are Reported 19-15
19.6 Types of Accomplishments Reported 19-16
19.7 Reporting Activities as Accomplishments – Examples 19-17
19.8 Using Evaluation Findings to Strengthen a Performance Story – Example 19-18
19.9 Good Practices to Improve the Quality of Performance Information 19-20
19.10 Accountability Legislation in Other Jurisdictions – Examples 19-32

Appendices

A. Departments and Agencies Whose Reports We Examined 19-37
B. Setting Outcome Expectations 19-38
C. Status of Our 1997 Recommendations on Performance Reporting 19-39
D. Summary of Recommendations of the 1998 Standing Committee on Procedure and House Affairs, and the Government's Response 19-41
E. Summary of Proposals for Improved Reporting to Parliament Project (Phase 2) and Subcommittee Recommendations 19-42

Reporting Performance to Parliament

Progress Too Slow

Main Points

19.1 Federal departments and agencies have made some progress in reporting on their performance to Parliament, but we are disappointed at its present pace. Continued at this rate, it would take too long for good reporting to become routine. We recognize that reporting on performance is not easy, and it takes time. Still, we believe that the effort deserves more attention: members of Parliament need information on what Canadians are getting for their taxes in order to hold the government to account. Good performance reporting has become an essential part of modern democratic systems.

19.2 To that end, it may be time for legislation. Several jurisdictions in Canada now have legislation requiring government to report on its performance to the legislature. Legislation highlights the importance of good reporting and puts it on a more permanent and stable footing.

19.3 Our examination of the Estimates documents — reports on plans and priorities and departmental performance reports — of 47 departments and agencies over the past four to five years found the following:

- While there has been progress, few departments set out concrete statements of what they expect to achieve and then report back specifically against those expectations.
- In reporting what they have accomplished, departments focus too much on listing activities and outputs and too little on linking them to and reporting on the intended outcomes.
- Reporting makes too little use of evaluation findings on the results that activities are accomplishing and on how programs are contributing to outcomes.
- There is little linking of financial and non-financial performance information; most accomplishments are not costed.
- Performance reports lack balance. Most departments report only the "good news" and make little mention of performance that did not meet expectations. As members of Parliament have said repeatedly, reports that present only good news are not credible.

19.4 We noted that the Treasury Board Secretariat has provided leadership for reporting. And we did find pockets of good reporting and a number of strengths in the present regime of reporting. Nevertheless, after five years of experimenting, departmental reporting overall has only improved modestly.

19.5 Three factors stand out as contributing to the current weak state of reporting:

- basic principles of good reporting are not understood or applied;
- performance reporting has political dimensions; and
- there are few incentives for good reporting or sanctions for poor reporting.

19.6 In addition to considering legislation, in our view the government needs to make the following changes in the present reporting regime:

- reach agreement on principles for reporting performance information;

- give more attention to the right incentives for incorporating evidence-based approaches into reporting;
- ensure stronger oversight by the Treasury Board Secretariat; and
- seek to enhance the involvement of parliamentarians in reviewing performance plans and reports.

Background and other observations

19.7 Federal departments submit performance reports to Parliament in the fall every year, outlining what they have accomplished. The reports are subject to consideration by their respective parliamentary standing committees. Review of the reports at that time would enable parliamentary committees to make recommendations for the upcoming spending decisions to be announced by the government later, in the Budget. In the spring, after the Budget, departments submit reports on their plans and priorities, describing what they are setting out to achieve in the upcoming year and beyond.

19.8 In 1997 we first reported on this new regime for reporting to Parliament. We found that a good start had been made and that the basic framework used for reporting was sound.

19.9 Credible reporting on performance has a number of benefits: it can enhance accountability and trust in government, provide information for improved programs and services and better parliamentary scrutiny of them, and serve as an incentive for departments and agencies to manage for the results they have set out to achieve.

19.10 On two occasions in recent years, the Standing Committee on Procedure and House Affairs has issued reports with recommendations on ways to provide for greater involvement of parliamentarians in the review of the Estimates.

19.11 The President of the Treasury Board annually tables, along with the departmental performance reports, a report in Parliament on government performance measurement, reporting and results-based management. In recent years it has provided useful performance information on collective results — areas where several departments or several governments are working collectively toward a result.

19.12 The Treasury Board Secretariat has taken important steps toward more electronic reporting. It needs to encourage departments to make greater use of this vehicle, and gather and share good practices.

The response of the Treasury Board Secretariat, on behalf of the government and the departments audited, is included at the end of this chapter. The Secretariat has responded positively to our chapter and recommendations therein. The Secretariat accepts our recommendations and indicates the actions that, where appropriate, it is taking or intends to take to address them.

Introduction

A good start in 1997

19.13 In 1997, we examined the state of the federal government's performance reporting to Parliament (Auditor General's 1997 Report, Chapter 5, Reporting Performance in the Expenditure Management System). We noted that the public and members of Parliament often lacked the kind of information that would demonstrate what Canadians were getting for the taxes they paid. Too often, departments described the activities they had undertaken and the services they had delivered but not the results they had achieved.

19.14 However, we did observe that several departments had made progress; we found aspects of good performance reporting in the information they had provided to Parliament. But we noted that in describing their expected performance, departments needed to be clearer and more concrete; in reporting their actual performance, they needed to focus more on the benefits they had gained for Canadians. The chapter made a number of recommendations for departments to improve their performance reports.

19.15 We also recommended that the Treasury Board Secretariat strengthen its leadership role. We noted that the role of parliamentary committees was vital to continued progress: if committees asked for information on performance and visibly used it in their deliberations, it would be a powerful incentive for departments to collect and report the information.

Many jurisdictions report on performance

19.16 **A growing number of jurisdictions in Canada have performance reporting initiatives.** As we reported in 1997, several jurisdictions in Canada (and elsewhere) are making tangible efforts to provide their legislatures and citizens with better information on how government programs have performed. Alberta has perhaps the most experience in Canada, reporting to the legislature on performance both government-wide and by ministry. Initiatives in Nova Scotia and New Brunswick that we noted in 1997 have continued, with some changes introduced by new governments. More recently, Quebec and British Columbia have passed legislation requiring the government to report to the legislature on performance. Saskatchewan also plans to enhance reporting.

19.17 We did not examine the success of initiatives in other jurisdictions or compare their performance information with that reported by Canada's federal government. We cite the experience and ongoing efforts of these jurisdictions to show that although it is not easy to provide better information on how government programs have performed, it can be done.

The Expenditure Management System

19.18 Past efforts by the federal government to improve reporting to Parliament included the creation of the Part III Main Estimates in 1981. The Part III documents were designed to provide information to members of Parliament on departmental spending plans and on the performance and results produced with the spending previously authorized. In 1983, the government agreed to include summaries of program evaluations in the Part IIIs.

19.19 In 1995, the government revised the Expenditure Management System it had used to manage its affairs and report on them to Parliament. As part of this initiative, it launched the Improved Reporting to Parliament Project.

19.20 **From Parliament's perspective.** The intent of the project was to provide Parliament with better information on the government's plans and performance. On a pilot basis, and with the agreement of Parliament, Part III of the Estimates was split into two documents:

- a Report on Plans and Priorities, tabled in the spring with Parts I and II of the Main Estimates, to establish performance targets and outline the general direction the minister wants the department to take during the upcoming year and the next two fiscal years; and
- a Performance Report, tabled in the fall, to indicate the extent to which results achieved to date reflect those that were planned.

The timing of the spring plans and fall performance reports is intended to enhance the role of standing committees.

19.21 Both of these new reports are Estimates documents, tabled in the House of Commons and subject to consideration by the appropriate standing committees. The timing of the spring plans and fall performance reports is intended to enhance the role of standing committees. Performance reports in the fall enable committees, in a timely way, to report their conclusions to the House and to make their views known to the government as it carries out its fall consultations on the upcoming budget. Standing committees may thereby influence spending plans and priorities for the next year or beyond. The plans reported in the spring can provide a focus for committee reporting to the House on future years' plans and priorities.

Clarifying results and performance concepts

19.22 Discussions of performance reporting can be confusing, as they involve a number of specific concepts and terms. Exhibit 19.1 presents some of them.

Focus of the audit

19.23 Our government-wide audit looked at the present state of performance reporting. This audit was in part a follow-up on the observations and recommendations we made in our 1997 Report, Chapter 5. Our objectives were to assess:

- the government's progress in reporting performance information to Parliament, including the leadership provided by the Treasury Board Secretariat and the use of performance information by standing committees; and
- the strengths and weaknesses of the federal regime of performance reporting.

19.24 We examined the Part III Estimates documents — the reports on plans and priorities and departmental performance reports of 47 departments and agencies (shown in Appendix A). These were the larger departments and agencies, including the 16 that had piloted performance reports in 1996, and a sample of smaller agencies. Over 80 departments and agencies provide these two Estimates documents to Parliament annually.

19.25 As this was a government-wide audit of the progress made to date in performance reporting, we did not audit the reliability or accuracy of performance information in reports on plans and priorities and departmental performance reports.

19.26 Further details on our audit objectives, criteria and approach can be found at the end of the chapter in **About the Audit**.

Observations and Recommendations

The Expenditure Management System Since 1997

19.27 The Improved Reporting to Parliament Project started in 1995 with five pilot departments, and expanded to include 16. Significant events have occurred since our 1997 audit:

- All departments and agencies (82 in 1999) submit reports on plans and priorities and performance reports.
- Based on the work of the Standing Committee on Procedure and House Affairs, a parliamentary subcommittee on the Business of Supply endorsed the Improved Reporting to Parliament Project in December 1998, and recommended a number of ways for standing committees to make good use of the Estimates reports. In its May 1999 response, the government

Exhibit 19.1

Terms and Concepts of Results and Performance

The concept of **performance** deals with how well things are done:

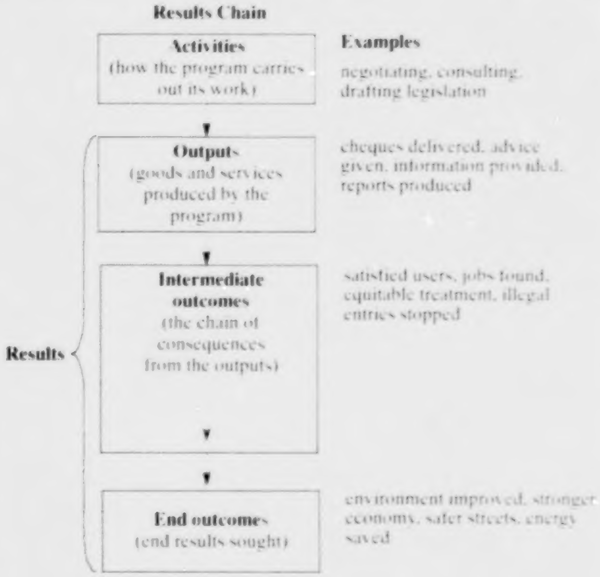
- Are the expected results accomplished?
- Are they accomplished within budget and in the most efficient manner?
- Are there undue, unintended consequences?

It also deals with whether the performance will continue or improve:

- Is the organization learning from past experience and adapting?

Performance, then, covers a number of ideas. Determining the specific aspect of performance to measure, and when, is not always straightforward. Government programs undertake a number of **activities** that produce a variety of **results**. Programs deliver two kinds of results: **outputs**, the direct products and services produced by government activities; and **outcomes**, the consequences of those outputs on Canadians and our society. Outputs are results that managers can largely control, while the outcomes are influenced by factors outside the programs of managers.

End outcomes (sometimes called long-term, final or ultimate outcomes) are the end results sought. In between the outputs and the end outcomes, a sequence of **intermediate outcomes** are expected to lead to a desired result but are not an end in themselves. Intermediate outcomes are more easily linked to the activities of a program than are end outcomes. The **results chain** is the sequence of outputs and outcomes that occurs as a result of the activities of the program.


Results Chain
Activities
(how the program carries out its work)
Examples
negotiating, consulting, drafting legislation
Outputs
(goods and services produced by the program)
cheques delivered, advice given, information provided, reports produced
Intermediate outcomes
(the chain of consequences from the outputs)
satisfied users, jobs found, equitable treatment, illegal entries stopped
Results
End outcomes
(end results sought)
environment improved, stronger economy, safer streets, energy saved

The following illustrates how the various results of an anti-smoking program could be characterized.

Results	An Anti-Smoking Program
Outputs	• anti-smoking advertisements and promotions • educational material distributed • enforcement of smoking regulations
Intermediate outcomes	• compliance with regulations • reduced number of smokers • reduced number of new smokers
End outcomes	• reduced incidence of smoke-related health problems and deaths • reduced costs of health care associated with smoking-related problems

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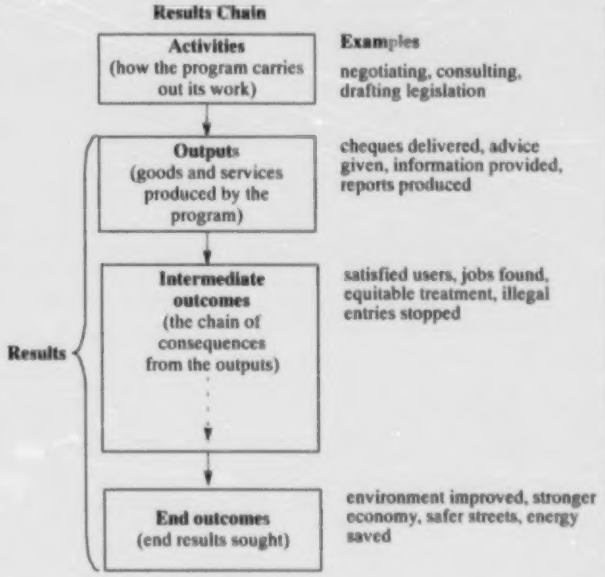
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agreed to engage parliamentarians further by initiating Phase 2 of Improved Reporting to Parliament.

- The Treasury Board Secretariat has established an Estimates Web site that includes departmental performance reports and reports on plans and priorities, with links to other performance information and information on cross-government initiatives.
- In March 2000, the government issued *Results for Canadians*, a results-based management framework for the Government of Canada.
- A second subcommittee established in May 2000 considered proposals for Phase 2; its report was tabled on 12 June 2000.

19.28 Business plans no longer submitted to Treasury Board. Perhaps the biggest change in the Expenditure Management System has been the evolution of departmental business plans. An integral element of the original Expenditure Management System was the requirement that departmental business plans be submitted to the Treasury Board for review, in place of multi-year operational plans. Business plans initially were to be concise, strategic three-year plans that set out goals, targets and performance measures. Several provinces, including Alberta, Ontario, and New Brunswick, have adopted business planning.

19.29 Business plans have evolved considerably since 1997, but as of 2000, their submission to Treasury Board is no longer required. The submission process began to be seen as cumbersome and not useful. For external communication purposes, a number of departments use their report on plans and priorities as their business plan.

19.30 Departments are encouraged to develop business plans for their own planning purposes. Treasury Board Secretariat analysts can get copies in the course of their ongoing dialogue with departments. On a selective and cyclical basis, any deputy minister may be asked to send a letter to the Secretary of the Treasury Board outlining current key issues and concerns in the department. The Treasury Board Secretariat intends to develop a yearly report to the Treasury Board on the key issues and risks faced by departments, together with options for dealing with them. The intent is that the President of the Treasury Board will present the results of this exercise to Cabinet at an early stage in the priority-setting cycle.

An important element of the revised Expenditure Management System is the move by departments to a single, purpose-focussed accountability structure for reporting financial and performance information.

19.31 Planning, Reporting and Accountability Structure still approved by Treasury Board. An important element of the revised Expenditure Management System is the move by departments to a single, purpose-focussed accountability structure for reporting financial and non-financial information. This Planning, Reporting and Accountability Structure (PRAS) links the department's internal management and accountability regime to its objectives, business lines, resource requirements and performance targets. It is intended as the basis for reporting in business plans and Estimates documents. Departments are still required to get Treasury Board approval for their PRAS if they want to significantly change their reporting structure.

19.32 To provide a focus on results in the departmental performance reports and the reports on plans and priorities, departments are asked to prepare a chart of "Key Results Commitments" as a way of organizing their reports, and they are asked to identify the kind of information they will provide to demonstrate results. Work is ongoing in departments to align the PRAS with key results commitments and their business lines to ensure a link between expenditures and results. Changes in these charts are reviewed by Treasury Board Secretariat staff before the departmental performance reports are completed each year.

What We Expected in Reports

19.33 After discussion with Treasury Board Secretariat officials in 1997, we identified five characteristics (Exhibit 19.2) needed in performance reports to give a credible account of performance:

- clear presentation of context and strategies;
- clearly and concretely stated performance expectations;
- performance accomplishments reported against expectations;
- demonstrated capacity to learn and adapt; and
- fair and reliable information.

We would expect to see the first two characteristics in a good report on plans and priorities as well.

19.34 In examining performance reporting by departments, we considered each of these elements of good reporting. Our findings follow, starting with our observations on how departments stated the results they expected. Next, we describe how they reported their actual results, and then we present our observations on the remaining elements of good reporting. Finally, we look at the overall state of performance reporting after five years.

19.35 We recognize that it may take time to establish expectations and report accomplishments in a way that is meaningful and useful to the organization, but we would expect to see significant progress after four or five years, and many examples of good performance reports. Where reporting is still weak, we would expect to see departments informing readers of their plans to improve it.

Some Improvement in Stating Performance Expectations

A variety of terms used to state what is to be accomplished

19.36 On some of the key terms used in performance measurement and reporting, there is general agreement (these terms are set out in Exhibit 19.2). There is less agreement on the terms that describe other key elements. One important element of performance reporting is setting out the results a program is intended or expected to accomplish. A second key element is measuring the results it has actually accomplished.

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19.37 Stating performance expectations. The term "objective" is often used as the statement of expected accomplishments but it tends to hide an important distinction between two different concepts. The first concept is a

Exhibit 19.2

What Should Be in a Performance Report

After reading a performance report, a member of Parliament or the public should have a good overview of a department and how well it is doing. In particular, a reader should know the following:

What are the context and the strategy? What the department does and why, what its programs are, what they should accomplish, what approaches will be used.

What results were expected? What each program intends to achieve specifically over the next few years toward the end outcome.

What results occurred? What has been accomplished to date, how it compared with the expected results, what resources were used, how the program contributed to the reported accomplishments, and what factors and other programs influenced the performance.

What changes are being made? What steps are being taken to improve performance that fell short of expectations.

How reliable are the data? To what extent the information reported is sound, and which data or information must be used with caution.

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general statement of strategic direction, a more global statement of intent. The Treasury Board Secretariat has begun calling these the *key results commitments* — the benefits that departments have committed to provide to Canadians — and each department now sets them out in its Chart of Key Results Commitments.

Performance measures are the terms usually used to identify a specific aspect of performance that can be measured, such as the number of full-time jobs created.

19.38 The second concept is a statement identifying specifically what is to be accomplished over the next few years. This is what our 1997 chapter called *performance expectations*. Over the past several years, the Treasury Board Secretariat and departments have used a number of different terms — desired outcomes, specific goals, intended results, and desired results. More recently, the Secretariat introduced the term *planned results* for these more specific intended results, as the companion term to the more global results commitments. We will use "planned results" interchangeably with "performance expectations".

19.39 **Measuring performance.** In order to report performance, some way to measure it is needed. Performance measures or indicators are the terms usually used to identify a specific aspect of performance that can be measured, such as the number of full-time jobs created or number of cheques delivered on time to eligible recipients. Departments are asked to state in the chart of key results commitments the performance measures or indicators they will use to demonstrate progress toward their results commitments.

Progress in stating clear and concrete performance expectations has been slow overall.

Setting concrete expectations remains a challenge

19.40 We examined the reports on plans and priorities of the 47 departments and agencies over the last six years. We looked at statements of expected performance — both the global results commitments and the more specific planned results. Exhibit 19.3 outlines the assessment we made and shows the average annual index score across departments. The scores indicate that progress in stating performance expectations has been slow overall, levelling off in the last two years.

19.41 However, statements of expected performance have become more outcome-focussed over the years. The reports for 2000–01 contained more clear and concrete statements of planned results than did those for 1996–97. Where progress was made, it was in more clearly stating expectations in terms of outputs or immediate outcomes and indicating a direction of change. There was little progress in specifying the timeframe for change and even less in stating the magnitude of change. Departments that scored highest usually stated expectations with both immediate and longer-term outcomes, and indicated the magnitude of change sought within a given timeframe. Exhibit 19.4 provides examples of clear and concrete performance expectations.

19.42 Departments have progressed to varying degrees in setting out expected performance. Some departments improved; others fell back — their later reports did not set out expectations in terms as clear and concrete as in their earlier reports. For example, in its 1997–98 Report on Plans and Priorities, Status of Women Canada set out, in reasonably clear and concrete terms, its performance expectations for contributing to equitable public policy:

> Use of gender-based analysis at the planning and subsequent stages in government policy and program analysis and development, by the year 2002.

The corresponding expectation in the 2000–01 report, however, is less clear:

> To have directed/led/driven the integration of gender-based analysis in the policy and program development of selected federal departments and key institutions.

19.43 Our Office continues to call for clear and concrete statements of the results that departments plan to achieve. Our 1997 chapter gave examples of planned results that were clearly stated and some that were not, some that were concrete and others that were not. (See Exhibit 19.4 for more recent examples.)

19.44 In our view, planned results need not necessarily be expressed as numerical targets to be concrete. As discussed in Appendix B, concrete expectations can include numerical ranges, a yes/no indication of a result, or a result indicated verbally on a comparative scale. And in setting out the specific result that is planned, it is useful to keep in mind the whole chain of outputs and outcomes to provide its context.

Inconsistent use of concepts

19.45 The performance reports we examined show widespread inconsistency in the content of key results commitments. They range from general statements of

Exhibit 19.3

Assessing Statements of Expected Performance

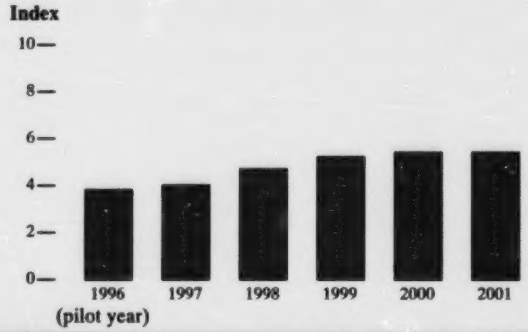
To identify overall trends, we assessed each business line in the reports on plans and priorities to see whether its statements of planned results were:

- clear and concrete;
- focused on outcomes; and
- plausibly linked to the business line's activities and outputs.

Statements of expected performance are more concrete when they can be readily measured. For example, statements must clearly indicate a direction of change, such as increasing the number of jobs created; contain specific time frames, such as by 2001; and anticipate the magnitude of change, such as creating 1,000 jobs.

We combined these elements into an index to measure how well the report stated results commitments and planned results for each business line. An index of 10 reflected statements that were clear on what was expected, that specified the magnitude of change expected and the time frame, that were outcome-oriented, and were plausibly linked to the business line. An index close to zero reflected vaguely stated expectations with no apparent link to the business line. To calculate an index for a department, we added the business line indices after weighing them according to their expenditures. A given business line can rate high in some aspects of stating expectations and low in others.

The chart shows the average annual score on this index across departments.



Average Index Scores for Stating Performance Expectations in Reports on Plans and Priorities

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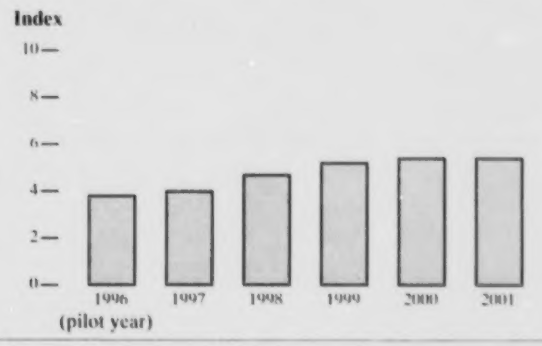


intent (in the vast majority) to quite clear and concrete statements of what is to be accomplished, that is, planned results. In the results commitment chart, the content under "to be demonstrated" is even more varied and hence much less useful to readers. Some departments give a list of activities to be carried out, and others a list of sub-objectives; some provide a list of performance measures, and still others, a list of performance expectations. And we have already noted the several different terms used to describe expected performance.

19.46 In our view, this miscellany of terms and concepts hinders reporting by confusing both the readers and the preparers of the reports. More uniformity in the types of performance expectations to be reported would help. The chart of key results commitments most recently requested by the Secretariat calls for two of the needed elements: results

Exhibit 19.4

Statements of Performance Expectations – Examples

Clear and Concrete

Maximum economic and social benefit for the global movement of people. To be demonstrated by "achievement of target immigration levels of 200,000 to 225,000 newcomers to Canada for 2000." **Citizenship and Immigration Canada**, 2000-01 Report on Plans and Priorities.

Export capability and preparedness. "*ExportSource* content will be improved by implementing the re-engineered guide, *Exporter Preparation*, and the new *Canadian Exporter's Guide to Intellectual Property*, and by targeting an increase in client satisfaction from 68 percent to 70 percent." **Industry Canada**, 1999-2000 Report on Plans and Priorities.

The environment and human health threats posed by toxic substances and other substances of concern are understood, and prevented or reduced. To be demonstrated by "releases of toxins reported through the ARET program reduced by 25,000 tonnes by the end of 2000. Continue to meet mercury emissions reductions of 50% from 1990 levels in accordance with UNECE commitments." **Environment Canada**, 1999-2000 Report on Plans and Priorities.

To manage the Department efficiently and effectively. To be demonstrated by a "reduction in the Departmental vehicle fleet size by 40 percent from 1995 figures and ensure, where technically and operationally possible, that all new vehicles run on alternative transportation fuels, by 1998." **Natural Resources Canada**, 1999 Departmental Performance Report.

Unclear

Conservation and biological sustainability of fisheries resources, marine and freshwater habitats and a protected environment. To be demonstrated by an "increase in public knowledge of oceans and freshwater issues to encourage local involvement, self-regulation, voluntary compliance and shared accountability." **Fisheries and Oceans**, 2000-01 Report on Plans and Priorities.

The delivery of benefits and services that contribute to the independence, quality of life and standard of living of Canada's veterans. To be demonstrated by "client independence and healthy lifestyle." **Veterans Affairs Canada,** 2000-01 Report on Plans and Priorities.

Not Concrete

To provide Canadians with health surveillance that anticipates, prevents and responds to health risks posed by diseases, food, water, drugs, pesticides, medical devices, environmental and occupational hazards, consumer goods, and other socio-economic determinants of health. To be demonstrated by "a public well informed about specific risks and benefits to their health." **Health Canada**, 1999-2000 Report on Plans and Priorities.

Promoting the integration of newcomers. "To be demonstrated by reduced potential for fraud and misuse of documents through the development of profiles that can help identify potential risks to program integrity in the citizenship application process and enhancements to the process of issuing citizenship certificates." **Citizenship and Immigration**, 2000-01 Report on Plans and Priorities.

commitments and planned results. In the previous chart, the column "to be demonstrated by" was intended to capture the specific indicators by which a department would measure and report on accomplishments. This element of reporting is still needed. After several years of experimenting with terms and presentation approaches, departments should now be encouraged to use this three-part conceptual framework — key results commitments, planned results/performance expectations, and the specific measures that performance is "to be demonstrated by". Consistent use of this framework by departments would encourage the development of clearer and more concrete performance expectations and enable readers of performance reports to know what results they can expect.

19.47 The Treasury Board Secretariat and departments should agree on key elements of performance to be reported and the terms the reports will use. The Secretariat should provide stronger leadership for consistent common practice.

Slow Progress in Reporting Accomplishments

Improvements needed in reporting accomplishments

19.48 The essence of performance reporting is to report what has occurred and relate it to what was expected. The fall performance reports are to set out the results accomplished in the period up to 31 March of that year. Exhibit 19.5 discusses how we assessed the reporting of accomplishments, and shows how well departments have done overall. We found that in general, the reporting of accomplishments against expectations has made slow progress. About a third of the departments did show improvement year by year. And while half of the departments did better at reporting their accomplishments in 1999 than in their first year of reporting, a quarter of them did worse.

19.49 There is still a focus on outputs and activities. While most departments have been reporting more outputs over the years and listing fewer activities, in 1999 only six departments focussed more on outcomes than on activities and outputs.

Movement overall has been toward a focus on outputs more than on outcomes, as departments have emphasized what they can control more than what they can influence.

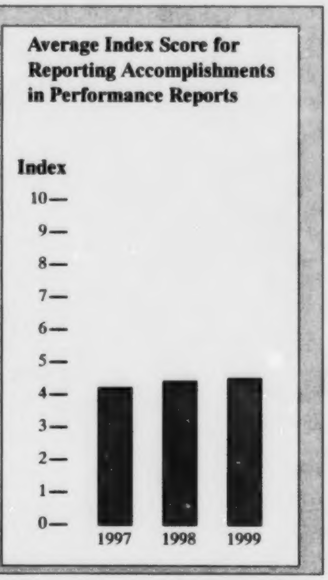
Exhibit 19.5

Assessing How Well Accomplishments Are Reported

We assessed each business line in the performance reports to see whether accomplishments reported were:
- outcome-oriented;
- compared with past performance or with that of other entities;
- attributed to the program; and
- plausibly linked to the business line activities and outputs.

We combined these factors into an index to measure how well accomplishments were reported. Business line scores for a department were added after weighing them according to their expenditures. A given business line might rate well in some aspects of reporting accomplishments and low in others. Lower scores tended to indicate that accomplishments are focussed more on activity and output, and no comparison or attribution is provided.

The chart shows the average index scores for reporting accomplishments in each of the three years when all 47 departments produced performance reports.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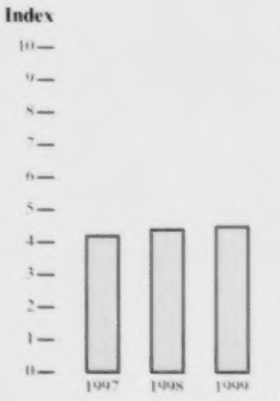


Some departments had drawn back from reporting outcomes: 14 did not report outcome accomplishments in 1997, and 16 in 1999. Movement overall has been toward a focus more on outputs than on outcomes, as departments have emphasized what they can control more than what they can influence. Reporting on outputs is necessary, but in the context of the outcomes they are meant to influence.

In many of the reports we examined, it was not easy to compare clearly what departments had accomplished with what they had planned.

19.50 Exhibit 19.6 shows the move toward reporting more outputs. However, the number of outputs, activities and outcomes reported can be somewhat misleading if no account is taken of the quality of reporting. Although the exhibit indicates a declining trend since 1997 in reporting outcomes, an analysis of the way some of them are reported suggests that this is not necessarily negative. Many of the "outcomes" reported earlier were stated in very vague terms and without attribution; and departments reported their "results" at a high level — little more than a restatement of their objectives, which they claimed to have achieved. The trend toward reporting more outputs could be a much more realistic indication of what departments are actually measuring. From reporting claimed outcomes as accomplishments, some departments have progressed to reporting measured outputs as accomplishments. But good reporting of outcomes is still a challenge for many departments. A number of them continue to report their activities in the past year as accomplishments (see Exhibit 19.7).

19.51 Too much focus on the latest year. Most outcomes that governments seek take a number of years to achieve. A "performance story" focussed on outcomes requires a discussion of the chain of results over several years. In recognition of this fact, departmental performance reports clearly indicate on the front that they cover the period *up to 31 March of that year* rather than only the 12 months in the fiscal year.

19.52 Funds are provided annually, and some reporting of the outputs produced in the past fiscal year is quite appropriate — indeed, essential — to provide the context for the outcomes reported. However, we found that performance reports too often focus primarily or exclusively on the latest fiscal year. Reporting on one year encourages a focus on activities and outputs, at the expense of outcomes that may have resulted recently from activities and outputs of past years. Departments need to adopt a multi-year perspective on reporting to capture the outcomes they have accomplished and the related expenditures they have incurred.

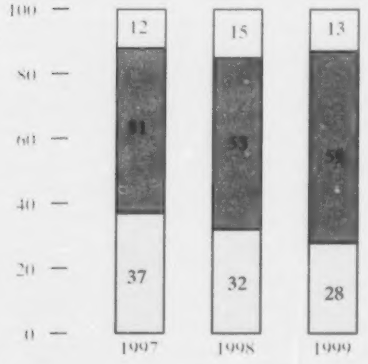
19.53 Departmental performance reports are meant to report back on the key results commitments and the related specific performance expectations stated in earlier reports on plans and priorities. Evidence of accomplishments related to these performance plans must be provided and any changes in the plans explained. In many of the reports we examined, it was not easy to compare clearly what departments had accomplished with what they had planned. There are several reasons: the reporting structure used often changes, different wording may be used, and presentation can be confusing. Both the reports on plans and priorities and the performance reports have undergone experimentation and change over the past few years. There is now a need for greater consistency between the two.

Exhibit 19.6

Types of Accomplishments Reported

(percentage)

Outcomes
▨ Outputs
☐ Activities



19.54 The Treasury Board Secretariat and departments should ensure that departmental performance reports consistently and clearly report back on the expected performance set out in the reports on plans and priorities relevant for the period ending 31 March.

19.55 Only limited comparisons provided. We saw that as departments gained experience over the review period in reporting performance, there was a very slight increase in the number of them that made comparisons with previous years' performance. In 1999, about half provided at least one comparative reference, although very few departments provided comparisons regularly and systematically. Almost no departments compared their performance with that of similar entities (benchmarking). Readers of a performance report can judge whether performance was reasonable only by comparing it with something: with the previously stated expectations, with past years' performance, and/or with similar programs elsewhere.

More effort is needed to assess a program's contribution

19.56 Program managers do not control the outcomes they are seeking to accomplish. They undertake activities that produce the goods and services (outputs) that are expected to influence events toward those outcomes. As highlighted by Treasury Board Secretariat guidelines, it is therefore important that departments explore the extent to which their programs are contributing to outcomes.

19.57 Limited discussion of the influence that programs have on outcomes. Discussion in performance reports of the relationship among activities, outputs and outcomes had improved little over the period we reviewed. Few departments discussed how their activities and outputs had contributed to the accomplishments they were seeking. For example, only a few included a logic chart or results chain that linked inputs, outputs and outcomes. As a result, readers of a report would not have a clear picture of the department's contribution to longer-term outcomes, such as a healthy industrial sector or higher standard of living for citizens, which are often the kinds of end outcomes the government is trying to achieve.

Few departments discussed how their activities and outputs had contributed to the accomplishments they were seeking.

19.58 A few departments, such as the Royal Canadian Mounted Police and Citizenship and Immigration Canada, did make some attempt to discuss the contribution they were making, primarily by listing the other jurisdictions and

Exhibit 19.7

Reporting Activities as Accomplishments – Examples

Health Canada, in its performance report, lists "reduced illness, injury and death from identified health risks" as a desired outcome of its Management of Risks to Health Commitment. "Completed a revised draft Risk Management Framework" is reported as an accomplishment. This is elaborated later in the report through more activities stated as accomplishments in improving the risk management framework, such as "started the implementation of the Nutrition for Health action agenda" and "developed policies and programs for the safety of raw food of animal origin". The Department does not discuss how these activities would contribute to or eventually lead to reduced illness, injury and death – the stated desired outcome.

Fisheries and Oceans, in its Performance Report for 1999, lists as expected performance to "provide Canadians with safe, efficient and accessible waterways and harbours." It elaborates on this in a chart of Key Results Commitments with a long list of ways this is demonstrated – for example, "safe and efficient movement of marine traffic through ice-covered waters." Icebreaking activities the Department reports as accomplishments include implementing a fee for icebreaking services, transferring the Arctic Sealift (resupplying Arctic areas) to the Government of Nunavut, working with the United States to expand the cost-sharing arrangements for ice patrol, and continuing an economic study of icebreaking benefits. The expected accomplishment, the safe and efficient movement of marine traffic, is not discussed.

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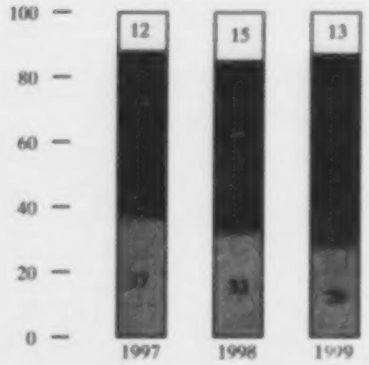

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19.59 We think it is possible to take a more analytical approach to describing the contribution made by departments. A results chain (see Exhibit 19.1) that describes the outputs produced and the series of intended outcomes can help to "tell the performance story" and the roles of the different players in it. By identifying how outputs from various contributors have together led to a series of outcomes, the contribution of each can be shown. Similarly, the effects of the program's outputs can be presented with supporting evidence to demonstrate the case that the program played an influential role.

Evaluations can provide for better measurement of outcomes accomplished and better analysis of the reai contribution a program is making.

Evaluation findings can play an important part in reporting performance but are underused

19.60 A small number of departments included relevant results of evaluations in their performance reports. This was often useful, added information about the nature of the performance, its contribution to outcomes accomplished, and the factors associated with success or with underachievement. For example, in discussing a program, the RCMP's performance report summarizes in "Key Review" boxes the results of evaluations or reviews related to the program. In its Departmental Performance Report for 1999, Canada Economic Development for Quebec Regions made extensive reference to evaluations to identify what had succeeded and what had presented challenges. Exhibit 19.8 illustrates this.

19.61 As Treasury Board Secretariat guidelines on performance reporting make clear, evaluations can provide for better measurement of outcomes accomplished and better analysis of the real contribution a program is making. A more extensive and systematic use of program evaluations would enhance performance reporting, increase a department's ability to identify its contribution, and provide some insight into factors that have influenced performance. We noted that U.S. federal legislation requires agencies to include evaluation plans in their performance plans, and the findings in their performance reports. Including the plans for relevant evaluations in reports on plans and priorities as part of the "to be demonstrated by" information would identify more clearly the role evaluation will play in measuring a department's results.

Exhibit 19.8

Using Evaluation Findings to Strengthen a Performance Story – Example

A mid-program evaluation led to the following conclusions for local empowerment:

> **"The SFCQ [Special Fund for Coastal Quebec] effectively contributes to the adaptation and the long term economic development of fishing communities most affected by the crisis. It has been noted that the program provides, in a majority of cases, the reinforcement, the diversification and the stabilization of the economic fabric of communities.**
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> **However, the mid-program evaluation also revealed that the development of entrepreneurial skills within the communities is an objective that is much more difficult to reach. Notwithstanding the communities' needs in terms of consensus-building and animation activities, findings reveal a low level of client participation. Economic promotion or entrepreneurship assistance activities have not yet generated measurable economic results."**

Source: Excerpt from Canada Economic Development for Quebec Regions, 1999 Performance Report.

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19.62 Departments should include plans for relevant evaluations in their reports on plans and priorities, and any relevant findings from evaluations in their performance reports.

Need to Improve Balance and Indicate Reliability of Data

19.63 We assessed the presence of other characteristics of good performance reporting, namely, presenting a clear context and strategy, demonstrating a capacity to learn and adapt, providing fair and balanced information, and discussing the reliability of the data used.

More balanced reporting needed to enhance credibility

19.64 Departments have made little progress in identifying weak performance and showing how they have used the information to improve programs: the vast majority of performance reports contain no such discussion. There are exceptions, including Citizenship and Immigration Canada and the RCMP — who compare their accomplishments (or lack thereof) with their previously stated expectations, or discuss them transparently. However, most departments report only the "good news", and make little mention of performance that did not meet expectations.

19.65 Departments understandably are reluctant to report to Parliament and the public on performance that falls below expectations. However, selectively reporting only good news weakens the reliability of the entire performance report — including the good news. Members of Parliament have repeatedly said that they do not trust the credibility of reports that present only good news.

19.66 What is more important, departmental performance reports are reports by ministers to Parliament on what their departments have accomplished with the funds and authorities Parliament has provided to them. Ministers are accountable for all aspects of performance under their responsibility and for accounting fully for their stewardship of that responsibility.

19.67 Report what was learned. We have suggested that if departments present performance that did not meet expectations in a context of what they now know works and does not work, they can significantly reduce their potential embarrassment. They can also indicate how they plan to correct the problem. This approach not only makes for a more balanced and credible performance report but also provides value to the organization in proactively identifying problem areas and addressing them. We noted that Treasury Board Secretariat guidelines do stress both the importance of balanced reporting and the need to report the lessons learned about what does and does not work.

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19.68 A good example of this can be found in the 1999 Departmental Performance Report of Citizenship and Immigration Canada. It notes that the Department fell short of its target for privately sponsored refugees by more than 20 percent, for two reasons: higher rates of refusal and longer processing times. The report outlines the actions the Department has taken to educate groups and sponsors in order to reduce refusal rates, and the operational changes it has made to reduce processing times.

Treasury Board Secretariat guidelines stress the importance of balanced reporting and the need to report lessons learned.

More attention is needed to data reliability

19.69 Good reporting requires that information be reliable and presented fairly. Readers can be misled by information that is not accurate enough or does not present a balanced picture of what has been accomplished. Our audit did not examine the accuracy of the data in performance reports. Rather, we looked to see if the reports themselves discussed the reliability of the data.

19.70 We found little reference in the reports to the fairness and reliability of the performance information they contain. Very few reports mention the possibility that there may be shortcomings or problems in the data. And guidance from the Treasury Board Secretariat has paid little attention to the issue of data reliability.

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19.71 We noted that several other jurisdictions give considerably more attention to this issue. Alberta, for example, requires that departments include in their performance reports a short description of the methodology used to arrive at any data presented. At the U.S. federal level, legislation requires agencies to discuss the verification and validation of information in their performance reports, and legislators have publicly stressed the importance of data quality. Exhibit 19.9 provides some good practices followed in the United Kingdom to improve the quality of performance information.

19.72 Our Office has pointed to a number of inaccuracies in the data or information provided in performance reports. For example, an audit of the Fisheries and Oceans fleet management program identified problems in the accuracy of information in the Departmental Performance Report (Chapter 29, Fisheries and Oceans — Fleet Management). In an audit of the RCMP earlier this year (Chapter 7), we found that information in the Departmental Performance Report was scant and inconsistent with information available in other sources. A previous audit of the Canadian International Development Agency (1998 Report, Chapter 21) observed that CIDA needed to review the information in its performance report more rigorously to ensure that it was accurate and balanced. We made a similar observation this year in Chapter 14 on CIDA's Canadian Partnership Branch.

19.73 The Treasury Board Secretariat should require that departmental performance reports indicate the extent to which performance information has been verified or validated.

19.74 Too early for cost information on results. The importance of proper cost information to good performance reporting and to managing for results continues to be a concern of this Office. In 1999, Chapter 21, we reported on the Financial Information Strategy (FIS) designed to help the government strengthen its management of business lines and its accountability to Parliament. Departments are to integrate financial information with non-financial (operational) information and use it both in day-to-day management and in accountability reporting to Parliament. The 1999 audit found that most departments were only starting to focus on the FIS, despite a target implementation date of 1 April 2001.

Exhibit 19.9

Good Practices to Improve the Quality of Performance Information

The UK National Audit Office recently issued guidance on good practices in performance reporting. It states that systems for collecting and validating performance data are likely to be more robust when agencies:

- **define the quality of data in advance,**
- **seek advice from specialists,**
- **establish clear performance measure definitions,**
- **designate who is accountable for performance data,**
- **managers are active in obtaining good quality performance data, and**
- **develop and implement effective controls over the collection of data.**

Source: Good Practice in Performance Reporting in Executive Agencies and Non-departmental Public Bodies, Report of the Comptroller and Auditor General, UK, 2000.

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19.75 In October 2000, we reported our assessment of financial management capabilities in selected departments. A common gap we found again was the limited ability to integrate financial and non-financial information. Most departments indicated that they had only begun the task of integrating financial and operational systems. In our latest audit of the federal initiative at managing for results (Chapter 20 of this Report), we also found a poor link between results and cost information. Our examination of 10 program areas found that limited cost information was available to departmental managers.

19.76 This gap has clear implications for individual departments and for the government as a whole. Until they are able to integrate information on costs and on results, departments cannot give Parliament and Canadians a realistic picture of what it has actually cost to produce a given result. In addition, senior management cannot readily forecast the costs of major decisions, like a decision to increase or decrease the level of service a program provides.

19.77 Performance reports generally state expenditures by business line, indicating the cost of producing all the business line's results. However, a few departments have included some spending information by sub-business line or by key results commitment. The RCMP, for example, gives inputs (finances and staff) for some of its business line components, while Natural Resources Canada gives the costs of selected components. The Treasury Board Secretariat has a project under way for departments to share their practices for linking financial and cost information to results.

19.78 The Treasury Board Secretariat should enhance its efforts to identify and share with departments practical approaches to linking financial and non-financial information.

Performance Reporting Shows Modest Improvement

19.79 As we have mentioned, initiatives to improve reporting to Parliament have a long history. The 1980s saw the introduction of the Part III of the Estimates, which moved reporting toward a purpose-based focus. The current performance reports are a significant improvement over those early efforts. And even in the past few years, departments have considerably improved the presentation of their performance information. Most show a good effort to situate the department and many are quite reader-friendly.

19.80 It also is clear, as we observe in Chapter 20 of this Report, that the concept of "results", including outcomes, has become widely accepted as the basis for reporting performance. The structure of reporting is clearly based on a department's Chart of Key Results Commitments. These charts form the basis for setting out the expected performance and reporting the results actually accomplished. The culture seems to have become more focussed on results, even if full implementation has yet to come.

Some departments show progress in communicating performance

19.81 No department we reviewed was exceptional in reporting its performance; our review showed that the practice is still evolving. Some departments are still trying to find a workable format and approach, and no overall "best practice" or "preferred model" for performance reporting emerged among the departments we reviewed.

19.82 While we did not examine the accuracy of the data they used, we did note that a number of departments have made steady progress in reporting their performance over the last several years:

- Atlantic Canada Opportunities Agency

Until they are able to integrate information on costs and on results, departments cannot give Parliament and Canadians a realistic picture of what it has actually cost to produce a given result.

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- Canada Economic Development for Quebec Regions
- Citizenship and Immigration Canada
- Royal Canadian Mounted Police
- Western Economic Diversification Canada

Their reports offer several examples of good reporting practice, particularly in communicating performance.

19.83 Good practices in some areas but weaknesses in others. In our view, the better performance reports stated, at a level below the key results commitments, what the departments had expected to achieve and then reported against these specific expectations what they actually achieved. The five departments we have indicated did this to different degrees, using different approaches. Atlantic Canada Opportunities Agency, for example, set out in a short table the general aim of each activity area, described the specific result expected, and stated the result achieved, followed by a short discussion.

19.84 The RCMP's Departmental Performance Report for 1999 provided for each program area a well-laid-out, one-page discussion of its planned results (such as contributing to a decline in violent crime), an outline of the problem, the strategies used, its partners, the actual results (outputs and outcomes) and its planned improvements. The performance story was quite clear. More concrete statements of expectations would improve the report, however.

19.85 Citizenship and Immigration Canada (CIC) has adopted a "performance at a glance" approach. Before the section on accomplishments it states the performance that had been expected in each area and indicates whether that performance was achieved or not. This would be a good method for reporting forthrightly on performance that is less satisfactory than expected. We note, however, that the expected performance could be stated in the CIC report in clearer and more concrete terms with a stronger focus on outcomes, which would allow the reader to judge whether the actual performance is what was expected.

19.86 Reports of other departments had good features. A number of other departments had innovative reporting practices. For example, Natural Resources Canada has experimented over the years with different approaches to reporting. One section of its 1999 Departmental Performance Report features tables of selected indicators that show the performance expected, the trend and the current status of performance for each indicator, a discussion of its significance and its relationship to Natural Resources Canada programs, and what the Department is doing to improve performance in that area. These tables are clear and easy to read, but they need to be integrated into the overall performance story the Department is telling about each of its goals and objectives.

19.87 Agriculture and Agri-Food Canada has also adopted a reader-friendly approach to performance reporting. Its 1999 Performance Report features a colour pull-out with a "report card" listing its key results commitments, and it has checked off those that were met. While the format is easy to read and the report is concise (especially given that it is a large department), the information it provides is highly aggregated and includes no clear and concrete performance expectations. Thus, it is difficult to determine whether the Department is performing well or not.

Good performance reporting overall is still some years away

19.88 Based on our examination of their performance information, the 47 departments together have made only slow progress since our 1997 audit in reporting their performance. Some departments have improved some aspects of reporting, but on the whole, the somewhat optimistic picture we presented in 1997 has not materialized.

19.89 The information the 47 departments presented in their reports on plans and priorities and their performance reports varied widely in quality. Some had made little progress over the three or four years; others had improved but had then fallen back below the level of their earlier reporting. Large and small departments differed little in the extent to which they improved their reporting.

19.90 Pilot departments did no better. We looked at the progress made by the 16 pilot departments (see Appendix A) that first reported in 1996, and compared it with the progress of other departments. Overall, their extra year of reporting experience and the additional flexibility they were provided did not put the pilot departments ahead of the others in the quality of their reporting. As a group, the pilots made uneven progress, and many other departments that had started a year later progressed further.

19.91 Some departments have not progressed. Several departments seem to have a lot of trouble "telling the performance story" in their performance reports. Many of their performance reports are little more than descriptions of activities carried out over the year. Performance expectations are vaguely stated and focus on activities, and they report as "accomplishments" the mere completion of those activities. Some of these reports have a section on how the department provides benefits to Canadians, but it is not linked to the department's activities and outputs and there is no discussion of intermediate outcomes so a reader can clearly see the connection.

19.92 Recommendations to departments in 1997 are still valid. The recommendations in our 1997 chapter on performance reporting are listed in Appendix C, which also indicates the extent to which they have been implemented. Overall, progress in addressing our recommendations has been unsatisfactory. The recommendations are still valid; the observations and recommendations in this chapter focus on further important areas that need to improve.

Large and small departments differed little in the extent to which they improved their reporting.

Treasury Board Secretariat Leadership for Reporting

19.93 Numerous efforts made over past years. The Treasury Board Secretariat has taken a relatively strong stance in promoting improved reporting to Parliament and, through an interactive and ongoing process, in developing departmental capacity for reporting. The Secretariat's efforts include the following:

- a Web site that contains a full array of past years' call letters, guidelines and reports (both reports on plans and priorities and departmental performance reports);
- regular information sessions (which were particularly well attended) when the Improved Reporting to Parliament Project was first introduced;
- the production of periodic question-and-answer newsletters;
- a symposium for practitioners in each of the past three years;
- peer review exercises; and
- internal technical assessments of reports.

19.94 We asked a few departments about the leadership shown by the Treasury Board Secretariat. They were generally satisfied with the Secretariat's support and leadership. The pilot departments particularly appreciated the flexibility they were given to try different reporting approaches. Yet there is a lack of practical guidance on reporting specific issues, like the performance of policy-making units and regulatory programs. Departmental officials said they

The Treasury Board Secretariat has taken a relatively strong stance in promoting improved reporting to Parliament.

would have appreciated more guidance on setting targets for results in such areas and defining appropriate indicators of performance.

19.95 Nevertheless, as already noted, progress by departments overall during these initial years of experimenting has been slow. Later, we discuss some possible reasons for this slow rate of progress, but it may be partly due to a lack of discipline in the reporting regime and the need for a stronger role by the Treasury Board Secretariat. As we have suggested, there are considerable differences in the way departments approach the basic elements of reporting like stating expectations clearly and concretely and reporting specifically against them.

The Treasury Board Secretariat and some departments are working on innovative electronic reporting or e-reporting.

Better electronic reporting needs to be encouraged

19.96 The Treasury Board Secretariat and some departments are working on innovative electronic or e-reporting. The Secretariat's Web site for the Improved Reporting to Parliament project provides a user-friendly guide to performance reporting. Users can access electronic versions of all departmental performance reports, reports on plans and priorities, and reports from the President of the Treasury Board for the current and previous year. They can also find an index of all references in performance reports to selected cross-department issues or government priorities, and an explanation of the Estimates process and the context in which these reports are produced.

19.97 Some departments have adopted their own innovative approaches to reporting through electronic media. Agriculture and Agri-Food Canada and Citizenship and Immigration Canada, for example, have each produced a more concise report by providing Web site references to more detailed information. This means that a reader can get more information on a particular area of interest by clicking on the appropriate Web address. A number of departments present their performance reports in a summary form that the reader can use to access details on particular issues through hot links. However, most departments simply post their performance reports on their Web sites.

19.98 More attention to e-reporting is needed. Electronic reporting solves the problem of providing both high-level summary information and more detailed information. Both serve various needs of parliamentarians and the public. Electronic reporting also opens the possibility of more timely analysis as well as horizontal and longitudinal analysis. This is clearly the direction of the future.

19.99 The Treasury Board Secretariat should encourage departments to share their experience in electronic reporting of departmental performance, and provide them with guidance on making their performance reports more concise and user-friendly.

Treasury Board Secretariat is focussing on collective reporting

19.100 In addition to its efforts to foster departmental reporting, the Treasury Board Secretariat has taken important steps to support collective reporting — reporting on performance in an area that involves more than one department or government. In recent years, it has taken the lead in government to develop a performance measurement framework for the Social Union Framework Agreement; has provided assistance to departments in developing their accountability and reporting frameworks; and has ensured that all Treasury Board submissions for funding of interdepartmental initiatives include a requirement for strong performance reporting. Lead departments of interdepartmental initiatives have indicated that they value the Secretariat's contribution.

19.101 The Treasury Board President's report provides valuable information. Since 1995, the President of the Treasury Board has tabled an annual overview document in Parliament. The first one, *Strengthening Government Review*, described how the government was managing, using and strengthening review. Subsequent annual reports have focussed more broadly on managing for results and reporting performance information, and have been tabled in Parliament along with all the departmental performance reports.

19.102 The President's reports are intended to provide an update on progress made by the government overall toward managing for results and reporting to Parliament on results. They have described government strategies for measuring and reporting on departmental, collective and societal results:

- In 1999, the report enhanced the information in the set of departmental performance reports tabled in Parliament by adding a compendium of all departments' charts of key results commitments.
- Successive reports have explored the presentation of performance information under each priority mentioned in the Speech from the Throne.
- Collective results are reported from different perspectives each year in response to requests from parliamentarians.
- Work to develop societal indicators is ongoing. The 1999 report made a significant contribution by presenting possible indicators to measure performance in three areas: Health, Environment and Public Safety; Economic Opportunity and Participation; and Social Participation and Inclusion.

19.103 However, it is true, as noted in the President's 1998 report, that "the government is not ready to give a comprehensive overview of government-wide performance." And the President's report itself is evolving, changing its focus and presentation every year. It does not report consistently what has been accomplished toward commitments made in previous years.

19.104 Nevertheless, important steps have been taken toward government-wide performance reporting. The challenge is to build on these initiatives, developing collective and societal indicators and presenting meaningful government-wide information in a convenient format for Parliament.

More Involvement of Parliamentarians Is Needed

Use by parliamentarians still limited

Some parliamentary committees have carried out reviews but most have not examined the Estimates documents.

19.105 In 1997 we reported that the review and use of the new Estimates documents by standing committees was limited. This has not changed, essentially. Some committees have carried out reviews but most have not examined the Estimates documents. A major stumbling block identified frequently and noted in our 1997 Report is parliamentarians' frustration over the limits on the role they can play in the Estimates process.

Improvements proposed to the current regime for reporting to Parliament

The Standing Committee on Procedure and House Affairs firmly supported improved reporting to Parliament and stronger government accountability for Estimates matters.

19.106 Parliamentary committees have examined reporting to Parliament. Since our Report in 1997, the Standing Committee on Procedure and House Affairs has tabled two reports to the House of Commons that looked at reporting to Parliament. In December 1998, the Committee made a number of recommendations for new structures, tools, and incentives to improve the business of supply (see Appendix D for a synthesis of the recommendations and the government's response). It also firmly supported improved reporting to Parliament and stronger government accountability for Estimates matters. Two innovations that were suggested are noteworthy: the creation of a new standing committee on Estimates; and amendment of Standing Orders to give standing committees the ability to reallocate funds as an incentive to study the Estimates documents.

19.107 In its response, the government recognized the merits of the recommendations but did not support the substantial changes they implied. However, it agreed with the objective of improved reporting to Parliament and supported the continuation of its Improved Reporting to Parliament Project.

19.108 In its Thirty-Seventh Report tabled in June 2000, on Improved Financial Reporting to Parliament, the Standing Committee on Procedure and House Affairs made further recommendations. A subcommittee was struck to consider a number of proposals made by the government:

- **Tailored Estimates information for Parliament.** Performance plans would cover a three-year period. Performance reports would be based on key results and not processes, would disclose all relevant information, and would be based on government-wide costing standards. There would be increased reporting of results that involved more than one jurisdiction.

- **Streamlined and consolidated reporting for Parliament.** The government would enhance electronic access to information, consolidate reporting where possible, and make use of executive summaries.

- **Strengthened parliamentary review.** The role of standing committees would be strengthened by having them review the key results commitments of departments. The government would continue improving the Estimates reporting process, and encourage standing committees to review reports on plans and priorities and departmental performance reports.

- **Improved reporting of expenditures by use.** This proposal would consider integrating accrual accounting in the budgetary process and improve the spending information provided to Parliament in the Main and Supplementary Estimates.

19.109 For the most part, the subcommittee recommended that the government's proposals be accepted. In addition, it recommended that consideration be given again to establishing a standing committee on the Estimates, that more resources be provided to standing committees for review of Estimates documents, and that the reporting of activities or programs that span more than one department be consolidated. In testimony before the committee, this Office agreed in general with the Treasury Board Secretariat's proposals. Further detail on these proposals and the subcommittee's recommendations are in Appendix E to this chapter.

Members' suggestions for improvement

Members made a number of comments and suggestions for improving reports to Parliament.

19.110 We interviewed a number of chairs and vice-chairs of standing committees as well as staff and researchers. We also looked at the reports of a number of roundtables on reporting to Parliament that had involved members, and at the results of several Treasury Board Secretariat surveys of members of Parliament. Members made a number of comments and suggestions for improving reports to Parliament and for their subsequent review:

- Changes are needed in the process for parliamentary review of the Estimates if it is to become more meaningful. Some members pointed to the recommendations made by the Subcommittee on the Business of Supply.

- The new Estimates documents are still not very user-friendly. Information on programs of interest to members can be hard to find, and tracking information from year to year can be difficult or impossible.

- Members need better dialogue with officials on reporting. One suggestion was that committees be more involved in the planning of performance reporting by, for example, reviewing performance expectations and results commitments.

- Departmental performance reports are not balanced, presenting only the "good news". As a result, their credibility is compromised.

- Another reporting weakness is the vagueness of performance expectations that "you can't hang your hat on."

Changes Are Required if Performance Reporting Is to Improve

The reporting regime has strengths

19.111 In reviewing the design and implementation of current reporting to Parliament, we noted a number of strengths:

- The clear intent is to focus strongly on reporting outcomes — the consequences of programs and services that matter to Canadians.

- All departments and agencies are reporting on their performance, and have done so now for three years.

- There is momentum: progress is being made, albeit slowly, and the government has made numerous efforts to engage parliamentarians on the issue of reporting.

- Government clearly sees the reporting initiative not as a singular effort but as part of meeting a larger need to manage for results, a key objective of its reform efforts.

19.112 Nevertheless, we found that progress has not been enough to ensure that departments and government will arrive at good performance reporting anytime soon. Clearly, along with some strengths there are a number of weaknesses in the current regime.

What is the problem?

19.113 **Performance reporting has a long way to go.** While we understand that good reporting takes time to develop, it is reasonable to expect that in the three to five years that departments have had, an organization dedicated to improving its performance reporting could have made significant progress. We were disappointed by the pace of the federal government's progress.

We found that progress has not been enough to ensure that departments and the government will arrive at good performance reporting anytime soon.

19.114 As we have noted, several departments have made steady progress each year, though they still have some way to go, and we would expect to see the same progress in the vast majority of departments and agencies. The uneven progress of some — the weakening of reporting, even — is a concern. At the current rate of progress, it will be many years before good performance reporting becomes routine. It is taking too long.

19.115 We had expected to see better progress and had not set out to try and explain the lack of progress. Nevertheless, three factors stand out as contributing to the current state of reporting:

- Too frequently, basic principles of good reporting are not understood or applied.

- Performance reporting takes place in a political environment.

- There have been no incentives available for good reporting practices or sanctions applied for bad.

There is frequently confusion or disagreement over basic principles of reporting.

19.116 **Basic reporting principles not well accepted.** As we have already observed, there is frequently confusion or disagreement over basic principles of reporting. For example we found the following:

- confusion over, and inconsistent interpretation of, what is needed to articulate results commitments, performance expectations and performance measures;

- persistent attempts to report performance for only the latest fiscal year rather than the more appropriate period, "up to 31 March of ..."; and

An important feature of performance reporting and managing for results is that those involved use similar concepts and similar terms to describe the key elements of reporting, such as performance expectations.

- infrequent recognition of the principle that performance reporting requires a meaningful comparison with previous levels of performance, with performance of similar programs elsewhere and/or with previously determined performance expectations stated clearly and concretely, so that readers can assess not only what was done — the results accomplished — but also how well it was done — how close it came to the intended outcome.

19.117 Poor performance reporting is safe reporting. In our view, perhaps the chief drawback at present is that an organization that does not work to improve its reporting suffers no adverse effects as a result. It may receive unfavourable comment from its parliamentary committee and some pressure to improve by mid-level officials in the Treasury Board Secretariat, but essentially departments can meet minimum requirements and not devote much attention to reporting. Reporting only a list of various activities carried out is a safe route to follow, ensuring for the most part that officials and the minister do not have to answer any tough questions about the department's performance as a result of its formal reports to Parliament.

Reporting to Parliament on the performance of government programs and services takes place in a political environment that is frequently adversarial.

Clear and common reporting principles are needed

19.118 In 1997, this Office outlined its expectations for good reporting (see Exhibit 19.2). We used them as criteria in this audit. The Treasury Board, too, has set out guidelines for reports on plans and priorities and departmental performance reports that are quite consistent with our expectations. There are also guidelines for departments on setting out the underlying framework for reporting results, namely the Planning, Reporting and Accountability Structure, which is approved by Treasury Board. All of these guidelines, however, have not been clear and consistent over the years and departments have used them inconsistently. As a result, it is likely that departments currently use a variety of criteria to determine what constitutes good performance reporting. Further, what has so far not been done on a formal basis is to engage the users of the performance reports — specifically, members of parliamentary committees — in stipulating what they want and expect performance reports to provide. Given the record to date, it may be time to move toward agreed reporting principles.

19.119 As we pointed out in 1997, an important feature of performance reporting and managing for results is that those involved use similar concepts and similar terms to describe the key elements of reporting, such as performance expectations.

19.120 We note that the CCAF has work under way with the Canadian Council of Legislative Auditors and senior officials of a number of Canadian governments, including the federal government, to explore principles of good reporting.

19.121 The government should work with Parliament and its auditor to agree on principles for reporting performance information to Parliament.

Performance is reported in a political environment

19.122 Reporting to Parliament on the performance of government programs and services takes place in a political environment that is frequently adversarial. Expectations for full and balanced reporting need to be tempered with the realization that what may be seen as a "report card" on government is a recent feature of public accountability. The intent of performance reporting is to enhance debate in Parliament and the public at large on the workings of government. But clearly, there is a risk that performance reporting could become a political tool of ministers or the opposition rather than a source of better information. At present, there is little incentive to report the "bad news". Performance reporting does not yet play a significant role in Parliament. It will take time for balanced performance reporting to become a useful factor in parliamentary debate and scrutiny.

19.123 The more that reporting is seen to provide a balanced and factual account of how well programs are working and what is learned when things do not work, the more effectively it can enhance parliamentary debate and build trust in government. The more routine that performance reporting becomes, the sooner it is likely to be accepted as a normal part of public accountability. The more that performance reports are seen to withhold information, the greater will be their vulnerability to political use.

More consideration of incentives needed

19.124 An award for good reporting is a good idea. The Treasury Board Secretariat is planning to present several awards each year for the best performance reports. An outside committee has been identified and the first awards were planned for fall 2000. In our view, this is a good step and provides some encouragement to departments to improve their reporting. It parallels the Auditor General's Award for Excellence in Annual Reporting by Crown Corporations, now in its seventh year.

19.125 Good reporting is based on good managing for results. The information that departments include in their performance reports should come from the information systems they use to manage. The more a department is managing for results, the more likely it will be to have good information for external reporting. Chapter 20 discusses a number of factors that can encourage a focus on results and hence improve reporting.

19.126 A role of assurance. While departments must be responsible for the integrity of their data, reporting regimes in other jurisdictions have often included the provision of assurance in the role of their external auditors. In Alberta, the Auditor General audits ministries' reporting of methodology and, at the same time, reviews their information systems and whether they are compatible with the ministries' internal control frameworks. In New Zealand, the Audit Office provides assurance on the fairness of reported performance achievements, while the audit office of Western Australia provides assurance that performance indicators are relevant and appropriate. The Texas audit office audits performance data for accuracy, while in Florida, performance measures proposed by state agencies are reviewed by a legislative office for validity and reliability.

19.127 At the federal level in Canada, the Office of the Auditor General assesses the performance information in the annual reports of three newly created agencies and provides assurance of its fairness and reliability.

19.128 A role for internal audit. Modern comptrollership contends that internal audit should audit and verify the accuracy and completeness of performance information. To date, however, this role for internal audit has not been substantively addressed. The procedures for verifying performance information are still not well defined, and internal audit units in departments generally lack the needed skills and experience. A draft Treasury Board policy on internal audit does call for it to play this assurance role. We agree with that policy. Internal audit ought to be the first place a department turns to for assurance of its data quality.

The information that departments include in their performance reports should come from the information systems they use to manage.

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19.129 The Treasury Board Secretariat and departments should develop the capacity of internal audit to provide assurance to deputy heads on the quality of information reported to Parliament and information used for decision making.

A stronger challenge of expectations is required

19.130 In some jurisdictions, departmental performance expectations are challenged externally. We note that in many other jurisdictions, departments' statements of expected performance are subjected to a degree of challenge from outside the organization. Government caucus members of the legislature in Alberta and Ontario have been involved in reviewing performance expectations and setting targets, as well as reviewing reported results. In other cases, such as the U.S. and the states of Florida and Texas, legislative and executive oversight bodies review and challenge agencies' performance expectations and specific targets for performance as part of the budgetary approval process.

Setting and challenging performance expectations is an integral part of effective planning and priority setting.

19.131 Treasury Board Secretariat review is limited. Treasury Board Secretariat officials provide some level of challenge to departments but it is informal and limited. Questions typically come from the Secretariat's liaison officer for performance reporting, not the Treasury Board analyst who is responsible for reviewing departments' requests for funding and for program changes and assessing program integrity (identifying strategic program issues and the critical risks to the continued achievement of results). The Secretariat may not always be in a position to question a quantity specified as a planned result — the magnitude of the change expected. But as a management board it could usefully challenge the way departments have stated their performance expectations and how they arrived at them. Results reported against clearly stated planned results would thus be a key element in the Secretariat's assessment of departmental programs.

19.132 Parliamentary review of expected performance would be beneficial. There would be an advantage to Parliament's involvement in reviewing departments' statements of expected performance. This review could be after the reports on plans and priorities are tabled in the spring, or part of a review of performance reports in the fall; it would provide a healthy challenge to departments. Involvement of parliamentarians in articulating expected performance would likely motivate departments to report back to Parliament fairly and reliably. It would also provide an incentive for parliamentarians to review and use the Estimates information more fully.

19.133 Equally important, however, would be an effective challenge within departments of both the performance expectations and the actual results reported back against them. This would normally involve the senior management of the department. Setting and challenging performance expectations is an integral part of effective planning and priority setting. If departments are to manage for results, they need to plan for realistic and challenging results and to state them as clear, concrete and time-specific performance expectations that all senior managers accept. In turn, the results reported against the expectations first need to undergo scrutiny by senior management, not only to assure the validity of the information but also to reaffirm its relevance. If the results achieved are not meeting the performance expectations, changes in the program may be needed, or the planned results may need to be reconsidered.

19.134 The Treasury Board Secretariat should provide a stronger challenge to departments' statements of expected performance.

19.135 The government should encourage departments to discuss their performance expectations with the related standing committees.

A stronger role for parliamentary committees

19.136 We suggested in 1997 that standing committees might wish to strengthen their review of Estimates documents. In February 1998, we provided all members with *Parliamentary Committee Review of the Revised Estimates Documents,* a report that described the Estimates system and offered suggestions for carrying out such a review. We still believe that a strengthened review would be useful for committee work and would influence departments to improve the performance information they provide.

19.137 Mechanisms for reporting to the House are important. In 1997, we noted that new arrangements were needed to facilitate reporting by standing committees on the fall departmental performance reports. At present, the rules of the House provide for committee scrutiny of the Main Estimates as part of the business of Supply. The committees also need the reports on plans and priorities in order to understand the votes in the Main Estimates. Since 1994, the rules have allowed committees to consider and report on those plans and priorities. In addition, a standing committee can study and report on any matter relating to the mandate, management and operation of the departments and agencies it oversees. While there is nothing to preclude committees' considering departmental performance reports and reporting their findings to the House, there is no rule explicitly empowering them to do so. The adoption of an explicit Standing Order would indicate the House's willingness to receive and consider committee reports based on the examination of departmental performance reports. It would encourage committees to hold more hearings and report more often to the House. For example, the House adopted a specific Standing Order in 1994 to empower the Standing Committee on Finance to hold pre-Budget consultations.

19.138 Parliament may wish to consider an enhanced role for its committees in reviewing Estimates documents, including review of the statements by departments of their expected performance.

Is it time for legislation?

19.139 As we have noted, in 1995 the government revised the Expenditure Management System and initiated the Improved Reporting to Parliament project to improve the Estimates documents. To date, these reforms have not been established in legislation.

We believe that a strengthened parliamentary review would be useful for committee work and would influence departments to improve the performance information they provide.

19.140 Under the *Financial Administration Act*, the Treasury Board is responsible for all matters related to financial management, including the Estimates. The Treasury Board Secretariat has issued guidance to departments, requiring that financial and non-financial performance information be provided to Parliament. However, the form and content of the Estimates documents are not specified in legislation, and may be changed by the government, although in the past the government has also sought Parliament's agreement.

19.141 Parliament agreed in 1997 to split the Part III Estimates into the reports on plans and priorities and the departmental performance reports, but it did so only on a pilot basis. For the past three years, all departments have provided performance information to Parliament but there is no certainty that parliamentarians will continue to receive this type of information from departments after the pilot project ends.

19.142 In June 2000 the Standing Committee on Procedure and House Affairs recommended that parliamentary review be strengthened and, in particular,

In our view, it is time for the government to consider introducing accountability legislation.

that the government reconsider the recommendations in the Committee's 1998 report on the subject. In the earlier report, the Committee had endorsed the pilot project to improve reporting to Parliament and had recommended that standing committees make full use of the information on departmental plans and performance in their study of the Estimates. The Committee considered that good performance reports should increase Parliament's ability to know what the government is accomplishing with the dollars and authorities granted to it and to effectively challenge government plans for priorities and spending in the future.

19.143 It is clear that good reporting on performance can increase Parliament's ability to scrutinize public expenditures. In light of the modest progress to date, we think a stronger and more politically visible initiative is needed, one that will focus the attention of parliamentarians and officials on reporting. In our view, it is time for the government to consider introducing accountability legislation.

19.144 Legislation alone will not ensure good reporting. But it could serve as a signal that Estimates reform is not a passing fad. The enactment of legislation would involve parliamentarians in designing a regime suitable to their needs. Moreover, legislation can secure further progress in a number of ways. It can:

- address concerns about the staying power of the federal reporting initiative. After five years of experimenting, legislation would ensure continuity over successive governments by formalizing the arrangement's permanence.
- provide an institutional anchor for results-based reporting initiatives, giving them standing to help ensure that they will continue to be taken seriously. The present initiative has clear objectives and some momentum, but it needs discipline and drive (see paragraph 19.111).
- provide Parliament with a focus for the scrutiny of public spending. Faced with the requirements of full and routine disclosure, departmental reporting may become more balanced and include performance that falls below expectations, making reports more credible to parliamentarians (paragraph 19.65).
- establish reporting principles and stipulate required form and content, based on experience to date. This would lead to a common basis for assessing the performance of departments, using consistent terms and interpretations (paragraph 19.118).
- allow central agencies to more effectively champion good performance reporting (paragraph 19.95).
- confirm the goal of reporting performance not only by department but also government-wide or by sector (paragraph 19.104).

19.145 However, some pitfalls associated with enacting legislation must be recognized. Care needs to be taken to not impose too much rigidity in a legislated reporting regime. Conformance by requirement rather than by conviction would not be very productive. Accountability legislation will have the desired effect only if all concerned —

Exhibit 19.10

Accountability Legislation in Other Jurisdictions – Examples

Jurisdiction	Accountability Legislation
Canada	
Alberta	*Government Accountability Act*, 1995
British Columbia	*Budget Transparency and Accountability Act*, 2000
Quebec	*Public Administration Act*, 2000
Australia	
Western Australia	*Financial Administration and Audit Act*, 1985
New Zealand	*Public Finance Act*, 1989
United States	
Federal government	*Government Performance and Results Act*, 1993
Florida	*Government Performance and Accountability Act*, 1994
Oregon	*Oregon Progress Board Act*, 1997
Texas	*General Appropriations Act*, 1995

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Florida	*Government Performance and Accountability Act*, 1994
Oregon	*Oregon Progress Board Act*, 1997
Texas	*General Appropriations Act*, 1995

ministers, parliamentarians and officials — show their continuing commitment to good reporting.

19.146 A number of other countries have recognized the need for legislation, as have several Canadian provinces. We noted in 1997 that some of these jurisdictions had enacted accountability legislation; since then, more have done so (see Exhibit 19.10).

19.147 The government should give consideration to legislative proposals that would require regular reporting of financial and non-financial performance information to Parliament by departments and, as appropriate, by the government as a whole, in order to demonstrate its commitment to a focus on results and to strengthen public accountability across government.

Conclusion

19.148 Good performance information is essential to informing Parliament and the public about what the government has accomplished with taxpayers' dollars. It is also essential to good management. Moving to a results-based culture is not easy and we recognize that it takes time to establish good performance reporting.

19.149 Nevertheless, we had expected to find noticeable progress by now, and we were disappointed. Only marginal progress has been made; the majority of departments and agencies we examined had progressed very little toward good performance reporting. This was despite the leadership shown by the Treasury Board Secretariat. At the present pace, it will take too many years for good reporting to become routine.

19.150 Aspects of current reporting to Parliament are sound: the focus on outcomes, the inclusion of all departments and agencies, the efforts made to engage parliamentarians, and the perception of reporting as part of a larger government priority — managing for results.

19.151 However, we think significant changes are needed in the current reporting regime to move things along:

- the development, communication and consistent use of basic reporting principles;
- a requirement to report on the reliability of performance data;
- enhanced efforts to link financial and non-financial performance information;
- a stronger internal and external challenge to the performance expectations set by departments;
- strengthened review by parliamentary committees of reports on plans and priorities and departmental performance reports; and
- consideration given to enshrining in legislation the requirement for reporting performance to Parliament.

Government's response: *We note that the Auditor General agrees with the approach the government is taking to improve reporting to Parliament, but feels that the pace of improvement has been too slow. In paragraph 19.151, he summarizes his recommendations to increase the pace of improvement.*

Other than the recommendation that the government actively consider legislation as the means for confirming the current reporting approach, the government has actions under way or planned that respond to the Auditor General's recommendations. Results for Canadians: A Management Framework for the Government of Canada, *tabled in Parliament in March 2000, provides the foundations for the changes in management culture that are also essential to improve reporting to the public and Parliament. Improved Reporting to Parliament is one of the six key initiatives identified with respect to the*

Accountability legislation will have the desired effect only if all concerned show their continuing commitment to good reporting.

implementation of the Results for Canadians *management framework.*

Among other things, good reporting must reflect how departments actually manage and deliver results. The federal approach puts the emphasis on:

- *results in serving Canadians;*
- *measuring performance, making improvements and learning from experience; and*
- *being open and transparent with Parliament and Canadians.*

Better linking of results and cost information and other improvements in measuring performance are key elements of this plan, as is continuing to work with Parliament with the aim of improving electronic access and developing standards for reporting.

In addition to its recommendations, the chapter notes some of the recent achievements in such areas as collaborative initiatives and electronic reporting. The chapter is balanced, recognizing significant accomplishments to date, and identifying areas that need further improvement. For these reasons, we believe the chapter is helpful and can serve as a benchmark for measuring further progress.

About the Audit

Objectives

One objective of the audit was to assess progress in reporting performance information to Parliament, by examining the following:

- the current state (quality) of departmental performance plans and reports;
- the leadership provided by Treasury Board Secretariat in furthering reporting; and
- the use that standing committees make of performance plans and reports, and any impediments to that use.

We also set out to assess the strengths and weaknesses of the federal regime for reporting on performance.

Scope

We reviewed the Estimates documents of 47 departments and agencies, specifically their reports on plans and priorities for 1995-96 to 2000-01, and departmental performance reports up to and including 1999. These were the larger departments and agencies, including the 16 that had piloted performance reports in 1996, and a sample of smaller agencies. We followed up on the observations and recommendations of our 1997 Report, Chapter 5, Reporting Performance in the Expenditure Management System.

As this was a government-wide audit of the current status of performance reporting and its progress, we did not audit the reliability or accuracy of performance information in reports on plans and priorities and departmental performance reports.

We reviewed testimony from a number of hearings on Estimates documents held by standing committees.

Criteria

We assessed performance reporting against the criteria set out in our 1997 chapter on performance reporting, namely:

- clear presentation of context and strategies;
- clearly and concretely stated performance expectations;
- reporting of outcome-focussed performance accomplishments against expectations;
- demonstrated capacity to learn and adapt; and
- reporting of fair and reliable information.

More detailed expectations for good performance reporting are provided in Exhibit 19.2.

We expected that the Treasury Board Secretariat would:

- have procedures in place to ensure a reasonable rate of progress in improving performance reporting;

- provide adequate guidance and direction, leadership, and demonstrated commitment, including the use of incentives and the building of expertise in departments;
- gather and disseminate best practices and lessons learned;
- work with parliamentarians to develop means of enhancing parliamentary use of departmental performance information, and
- report to Parliament on the government-wide progress of performance reporting and managing for results.

We expected that parliamentarians would identify the use they make of departmental performance reports and the impediments to that use.

In examining the reporting regime, we looked for the extent to which it allows readers of performance reports to assess how well an entity is performing, supports accountability to Parliament, and is consistent with other government initiatives.

Approach

To assess the state of performance reporting, we developed a rating system based on our criteria for good reporting. We developed indices for the key criteria of setting out clear and concrete accomplishments and of reporting outcome-focussed accomplishments against expectations. We used a similar approach to examine the three other criteria of good reporting. We also undertook a more qualitative analysis, reviewing the Estimates documents for general readability, presentation, and consistency from year to year.

We conducted interviews with departmental and Treasury Board Secretariat officials and discussed improved reporting with a number of standing committee chairs and vice chairs. We also interviewed Library of Parliament staff about the use of performance information by parliamentary standing committees. We observed several standing committee hearings and reviewed related testimony and several reports pertaining to parliamentary involvement in the review of Estimates documents.

We reviewed Treasury Board Secretariat documents and attended several events sponsored by the Secretariat in support of performance reporting. We reviewed literature on accountability legislation and reporting practices in other jurisdictions.

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Appendix A

Departments and Agencies Whose Reports We Examined

Agriculture and Agri-Food Canada*

Atlantic Canada Opportunities Agency*

Atomic Energy Control Board

Canada Economic Development for the Regions of Quebec

Canadian Centre for Management Development

Canadian Heritage

Canadian Human Rights Commission

Canadian International Development Agency

Canadian International Trade Tribunal

Canadian Radio-television and Telecommunications Commission

Citizenship and Immigration Canada

Competition Tribunal

Correctional Service Canada

Department of Finance

Department of Foreign Affairs and International Trade

Department of Justice

Environment Canada*

Fisheries and Oceans *

Health Canada

Human Resources Development Canada

Immigration and Refugee Board*

Indian and Northern Affairs Canada and Canadian Polar Commission*

Industry Canada

National Defence

National Energy Board*

National Film Board

National Library of Canada

National Parole Board*

Natural Resources Canada*

Natural Sciences and Engineering Research Council of Canada

Office of the Commissioner of Official Languages

Office of the Correctional Investigator

Office of the Superintendent of Financial Institutions

Offices of the Information and Privacy Commissioners

Public Service Commission of Canada

Public Works and Government Services Canada

RCMP Public Complaints Commission

Revenue Canada (now Canada Customs and Revenue Agency) *

Royal Canadian Mounted Police*

Social Sciences and Humanities Research Council of Canada

Statistics Canada*

Status of Women Canada*

Transport Canada*

Treasury Board Secretariat*

Veterans Affairs Canada*

Western Economic Diversification Canada

* Departments and agencies that piloted performance reports in 1996.

Appendix B

Setting Outcome Expectations

Clear performance expectations allow a reader to understand the result that is desired. Concrete performance expectations indicate not only the direction sought but also "how much" of the result is sought. Without this indication of "how much", the reader has no way of assessing whether the accomplishments reported are adequate, show progress, or meet expectations.

Making expectations concrete does not necessarily mean expressing them as numerical targets. Many performance expectations can and should be expressed in this way. But there is a danger that emphasizing only numerical or quantitative targets may limit the stated expectations — and hence reporting — to what can readily be quantified. More important, results could be neglected or their achievement undermined by focussing on results that are less important but easier to measure.

In addition to numerical targets, concrete performance expectations may be expressed as:

- a numerical range rather than a specific amount;
- the existence or lack of a result (0-1 variable);
- a defined scale of accomplishments, such as "good", "fair" and "poor"; and
- a significant contribution to a result, where "significant" has been defined.

There is a "results chain" of outputs, intermediate outcomes and end outcomes that describe a program. This chain is what is expected to occur, and departments ought to be able to specify in measurable terms the magnitude and timing of at least some of these results. With this in mind, concrete expectations can mean that at least some of the specific results in the chain are measurable. Clear expectations would then include the clarity of the logic behind the linkages between different levels of results.

We can then look for a clear and concrete chain of results rather than of necessarily only discrete expected results.

Appendix C

Status of Our 1997 Recommendations on Performance Reporting

Recommendations	Comments
Departments should:	
Ensure that their reports contain appropriate references to more detailed sources of information (1997 Chapter 5, paragraph 5.46).	**Satisfactory progress**. A number of departments give Web site addresses for more information.
Include in their performance reporting reference to related activities elsewhere in government, as well as discussion of all the key instruments that they use to achieve their objectives, including those instruments that are not reflected in estimates of spending for the coming year (5.59).	**Unknown.** This recommendation was not examined in the audit.
Establish clear and concrete statements of the performance expected from their lines of business. These should be included in their business plans, reports on plans and priorities, and performance reports (5.74).	**Unsatisfactory progress.** While statements of commitments and expected results have become more clear, they are seldom concrete.
Have performance reports which are more strategic, providing better account of the key aspects of performance (5.84).	**Unsatisfactory progress.** Departments are often not selective in what they report, overwhelming the reader with activity and output information.
Describe how the activities of their programs contribute to the reported outcomes (5.89).	**Unsatisfactory progress.** Few departments provide analyses on how their activities and outputs contribute to an outcome.
Report, where performance does not meet expectations, the performance gap, the reasons for it and the changes they are making to close the gap (5.98).	**Unsatisfactory progress.** Only a few departments report performance gaps, and fewer identify reasons or remedial actions.
Provide, where appropriate, an indication of the strengths and weaknesses of reported information and their implications for the reported performance. They should develop and implement procedures to ensure credibility and accuracy of the information reported (5.103).	**Unsatisfactory progress.** Performance reports do not adequately discuss data or information limitations. Accuracy of information was not assessed, but internal audit policy is now being revised to include provision of assurance.
The Treasury Board Secretariat should:	
Ensure the consistency of advice and feedback provided to departments on performance reporting (5.114).	**Satisfactory progress**. The Treasury Board Secretariat is co-ordinating advice and feedback, but definitions and usage are inconsistent.
Strengthen its efforts to document and communicate good practices by departments in articulating performance expectations, measuring results, and using the information to improve programs and report accomplishments (5.122).	**Satisfactory progress**. The Treasury Board Secretariat has instigated numerous activities to document and communicate good practice.

Recommendations	Comments
Ensure that individual departments are aware of Treasury Board Secretariat use of performance information provided in the departments' business plans and performance reports (5.125).	**Unsatisfactory progress.** The Treasury Board Secretariat has made little use of results information from departments.
The government, with Parliament's agreement, should:	
Ensure that the improvements in the reporting regime implemented on a pilot basis are made a permanent and formal feature of the Expenditure Management System covering all departments and agencies, and seek parliamentary approval for incorporating these improvements in the business of supply (5.53).	**Satisfactory progress**. Reporting by all government entities continues and commitment to report has been reinforced by government. Discussions with parliamentarians on ways to improve the regime have been held. Parliamentary committees have been engaged on the issue.
Standing committees may wish to:	
Consider strengthening their review, challenge and use of performance plans and reports from departments. Government should work with Parliament to develop means for enhanced parliamentary use of departmental performance information as input to the budget consultations (5.142).	**Little change.** There is currently little review of or challenge to performance plans or reports, and there is little use of performance reports by standing committees.

Key:
Fully addressed – The original audit finding has been fully addressed and no further action is needed. Our Office will not follow up.
Satisfactory progress – Reasonable progress has been made in addressing the original finding, but some additional action is required. Our Office will follow up.
Unsatisfactory progress – Reasonable progress has not been made in addressing the original finding and considerable further action is required. Our Office will follow up.

Source: Report of the Auditor General of Canada, Chapter 5, Reporting Performance in the Expenditure Management System, 1997.

Appendix D

Summary of Recommendations of the 1998 Standing Committee on Procedure and House Affairs, and the Government's Response

Areas of Focus	Recommendations	Response
Strengthen the parliamentary review of the Estimates and the supply process	Proposed the creation of a standing committee on the Estimates.	Recognized the merit of recommendation but cited significant obstacles, including policy and budgetary objectives, and workload restraints of current committee system. Suggested that House of Commons leaders consider whether an existing committee could be given ongoing responsibility for ensuring the effectiveness of the supply process.
Resource reallocation	Changes to Standing Orders to allow standing committees studying the Estimates to propose reallocations of up to five percent.	Stated that previous changes to the Standing Orders initiating the creation of the performance reports and reports on plans and priorities had already increased standing committee reallocation provisions. Anything beyond this might raise fundamental constitutional challenges.
Reporting to Parliament, review and accountability	Improve quality of information supplied to Parliament on government expenditures. Improve program and legislative review. Strengthen government accountability on Estimates matters.	Agreed with objectives and proposed launching a new initiative, building on the success of the existing Improved Reporting to Parliament Project. Result was the Improved Reporting to Parliament Project (Phase 2).

Appendix E

Summary of Proposals for Improved Reporting to Parliament Project (Phase 2) and Subcommittee Recommendations

Areas of Focus	Government Proposals	Recommendations of the Subcommittee on Procedure and House Affairs (June 2000)
Tailoring Estimates information for Parliament	Departmental reporting on plans and priorities and on performance to be based on key results and government priorities. Performance evidence on results, not processes. Reporting to cover a three-year planning period. Establishment of government-wide standards for reporting costs.	Proposed requirements should apply to all government departments and entities. Estimates should contain full disclosure of all relevant information concerning activities, programs or services. Reporting should cover a three-year period (except for large, non-recurring, capital projects).
Streamlining and consolidation reporting for Parliament	User-friendly electronic access, e.g., make pilot Estimates, performance and planning information sites available on Internet. Consolidation of departmental reporting. Provide executive summaries for longer Estimates reports.	Should explore possibility of consolidation of the reporting of activities, programs or services that span more than one department into a single heading.
Reviewing and strengthening parliamentary review processes	Strengthen role of standing committees in the Estimates reporting process by encouraging departments to engage them in reviewing their key results commitments. Encourage standing committees to review reports on plans and priorities and performance reports.	House of Commons should reconsider the establishment of a standing committee on the Estimates with a mandate to monitor and review the Estimates and the supply process. House of Commons should reconsider providing more resources to standing committees in order to support the review and analysis of Estimates and performance reports.
Improving information to Parliament on the government's expenditure plans and the use of funds in relation to these plans	Explore the merit and feasibility of integrating the principles of accrual accounting in the budgeting process and spending information in the Estimates. Establish clear links between information contained in the Estimates and the overall spending plans contained in the budgets.	Review of the Standing Orders to identify the items that would need to be changed in order to implement full accrual appropriations. House of Commons should consider ways of improving parliamentarians' level of understanding, knowledge, and ability to use financial, budgeting and supply information under full accrual basis.

Report of the Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6
5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter

15 Health Canada – First Nations Health: Follow-up

Other Observations

16 Follow-up of Recommendations in Previous Reports
17 Other Audit Observations

Volume 3 – December 2000

Chapter

Matters of Special Importance – 2000
Foreword and Main Points

18 Governance of Crown Corporations

19 Reporting Performance to Parliament: Progress Too Slow

20 Managing Departments for Results and Managing Horizontal Issues for Results

21 Post-Secondary Recruitment Program of the Federal Public Service

22 Development of the Universal Classification Standard: A Follow-up

23 Information Technology: Acquisition of Goods and Services

Protecting Health and Safety

24 Federal Health and Safety Regulatory Programs
25 Canadian Food Inspection Agency – Food Inspection Programs
26 Health Canada – Regulatory Regime of Biologics
27 Canadian Nuclear Safety Commission – Power Reactor Regulation
28 Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

29 Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

30 Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

31 Fisheries and Oceans – Fleet Management

32 National Defence – Defence Support Productivity: A Progress Report

Other Observations and Appendices

33 Follow-up of Recommendations in Previous Reports
34 Other Audit Observations

35 Sustainable Development Strategy for the Office of the Auditor General

Report of the
Auditor General of Canada
to the House of Commons

Chapter 20
Managing Departments for Results and Managing Horizontal Issues for Results

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

© Minister of Public Works and Government Services Canada 2000
Cat. No. FA1-2000/3-20E
ISBN 0-662-29583-8
Copies françaises aussi disponibles

Chapter 20

Managing Departments for Results and Managing Horizontal Issues for Results

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 20-5

Managing Departments for Results: Not There Yet 20-7

Introduction 20-7

Government Has Committed to a Long-Term Focus on Results 20-7
What Is "Managing for Results"? 20-7
An overview of results and performance concepts 20-9
What We Found in 1997 20-9
Focus of the audit 20-9

Observations and Recommendations 20-11

What Happened to Our 1997 Cases? 20-11
A Framework for Department-Wide Managing for Results 20-11
Managing for Results Still Not an Integral Part of Managing Departments 20-13
What we expected 20-13
More attention to results 20-13
Use of performance information is limited 20-14
Planning for Results But Not Enough Implementation 20-15
Extensive planning to manage for results 20-15
A need to move beyond planning 20-16
Some Are Managing for Results 20-17
Performance information used in some business lines and programs 20-17
Other elements of managing for results are present 20-18
Learning From Others' Experience 20-20
Need for Concerted Leadership by Treasury Board Secretariat 20-20
Evaluation Is a Vital Element 20-22
Following up on our 1996 audit 20-22
Our assessment of progress 20-23
Evaluation function has regressed 20-23

Conclusion 20-24

Managing Horizontal Issues for Results: Finding Solutions to the Challenges 20-26

Introduction 20-26

Growing Attention to the Management of Horizontal Issues 20-26
Horizontal Issues Addressed in Our Previous Audits 20-27
Focus of the study 20-27

Observations and Recommendations 20-28

Effective Co-ordinating Structures Are Needed 20-28
Many approaches to co-ordination 20-28

Page

Senior Support and Effective Tools for Issue Management 20-30
  Senior leadership is key 20-30
  Formal frameworks are useful documents 20-31
  Finding effective levers and incentives 20-31

Challenges in Reporting 20-32

Lessons Must Be Learned and Shared 20-33
  Some challenges and solutions identified 20-34

A Stronger Role for Treasury Board Secretariat 20-34
  The role of the Treasury Board Secretariat needs to be better defined 20-34

Conclusion 20-35

About the Audit 20-37

Exhibits

20.1 Managing for Results: A Learning Process 20-9
20.2 Results and Performance Terms 20-10
20.3 Programs and Business Lines Examined 20-11
20.4 Framework for Managing Departments for Results 20-12
20.5 Logic Chart for the Water Aeration of Surface Reservoirs Project 20-15
20.6 Use of Performance Information in 10 Programs 20-17
20.7 Lessons on Effectively Implementing Managing for Results 20-21
20.8 Interdepartmental Co-operation – Key Findings and Success Factors 20-27
20.9 Key Elements: Co-ordination, Structure and Accountability 20-29
20.10 Applying Lessons in Co-ordinating Greening Government Operations 20-33
20.11 Managing Horizontal Issues for Results: Challenges and Suggested Solutions 20-34

Appendices

A. Background Descriptions of Programs Audited 20-39
B. Follow-up on Our 1997 Cases 20-41
C. Initiatives Supporting Managing for Results 20-42
D. Status of Our 1996 Recommendations on Federal Evaluation 20-43
E. Horizontal Issues – Three Case Studies 20-44
F. Framework for Managing Horizontal Issues 20-45

Managing Departments for Results and Managing Horizontal Issues for Results

Main Points

20.1 In our examination of five large federal departments and 10 programs, we found that several departments have made tangible efforts to focus on results. There was evidence of commitment and support by senior management, extensive planning activities, identification of key performance indicators and some measuring against them.

20.2 However, we found that only 4 of the 10 programs have information on results that is used routinely. In most departments we examined, the persistent state of planning for results — rather than actually managing for results — has meant that progress in using information on results has been limited since we reported on this issue in 1997. It is time for departments to move beyond planning. There is a need for more widespread measurement of the results they accomplish and use of that information to improve programs.

20.3 The government needs to ensure that the evaluation function plays a more central role in its move toward managing for results. The evaluation capacity in many departments has atrophied at a time when more effort, not less, is needed to measure the results of programs.

20.4 More and more, the government needs to manage initiatives that span two or more federal departments. "Horizontal" issues like the Federal Disability Agenda are often key priorities of government. Our study of three horizontal issues found that, like many departmental programs we audited, they were not being managed for results.

20.5 Over the past several years, the government has been clear about the importance of making results central to good management and accountability, and this vision is increasingly being accepted across government. However, bringing that recognition into practice will require central agencies to play a stronger role. They need to provide encouragement and support for departments to move beyond merely planning for results. We found the Treasury Board Secretariat's leadership too limited and its support too dispersed to be of real help to departments trying to manage for results. Nor does the Secretariat have a strategy for dealing with horizontal issues. It needs a strategic approach to these issues, given their growing presence in government.

Background and other observations

20.6 Managing for results allows managers to make changes once they know what is working and what is not. It represents a significant difference in the way government programs are managed. Managers can then pay more attention to finding out whether programs are meeting their objectives and less to only carrying out activities or setting up structures and processes.

20.7 The concept of managing for results is now widely accepted across government. As a first step in putting it into practice, most departments had to realign their management structures and processes according to the results they were seeking, and not to their programs or activities. Each department had to establish department-wide objectives and think through how it wanted to structure itself in terms of the results it expected. Most of the departments we audited were engaged in significant efforts to plan how they would manage for results.

20.8 In managing a horizontal issue for results, it is critical to have a co-ordinating function that is supported by senior management (particularly in a lead department) and that has enough resources to do the job.

20.9 Departments receive limited practical guidance on managing for results, and there is little sharing of experience. They need more encouragement to move beyond planning for results; there is also a need to identify champions.

20.10 While managing for results presents challenges, there are known, practical ways to deal with them. They require that people embrace the idea of learning from experience — which includes learning from mistakes. It involves bringing more rigour to understanding past experiences and then adjusting practices in light of this learning.

The response of the Treasury Board Secretariat, on behalf of the government and the departments audited, is included at the end of this chapter. The Secretariat accepts our recommendations and indicates the actions that it is taking or intends to take to address them.

Managing Departments for Results: Not There Yet

Introduction

20.11 Canadians continue to expect government to manage tax dollars efficiently and to ensure that they are getting value for their taxes. To manage public resources effectively toward an intended result, government officials need to have credible information on the performance of the programs and services they manage. This is the information they will use to determine whether the results they expect are being achieved, and whether their programs are working well or need to be modified.

20.12 The government needs similar information to account for the funds and authorities it has received from Parliament. Chapter 19 of this Report discusses the progress the government is making toward better reporting of performance information to Parliament.

Government Has Committed to a Long-Term Focus on Results

20.13 As early as 1976, the Treasury Board Secretariat promoted performance measurement as a basis for planning, decision making and improving management practices. During the 1980s, program evaluation was given high prominence as a management tool to improve program performance. In 1995, the government launched the current move toward a results-based approach to management. The President of the Treasury Board announced in his first annual report to Parliament, *Strengthening Government Review (1995)*, that the government was committed to delivering programs that work, by moving from a focus on rules and processes to a focus on results. He said that government wants to create a management culture that is fact-based, results-oriented, open and accountable. To deliver more efficient and more affordable programs and services, the government has embraced the principles of service quality, managing for results and continuous learning.

Government managers need to have credible information on their programs to determine if they are working well or need to be modified.

20.14 The President of the Treasury Board has reported annually to Parliament on the government's progress toward managing for results. The government has reiterated its commitment to a public service focussed on results in the Treasury Board Secretariat's publication, *Results for Canadians: A Management Framework for the Government of Canada 2000*.

20.15 In that publication, the Secretariat confirmed that it has a key role of leadership and facilitation to assist departments in achieving desired results. It aims to provide "whole-of-government" advice to ensure that Parliament and Canadians have the information they need to hold the government to account. These efforts should promote greater responsiveness and a focus on results in government operations.

The government has undertaken a number of reforms since the launch of the "managing for results" initiative in 1995.

20.16 The government has undertaken a number of reforms since the launch of the "managing for results" initiative in 1995. These include the reform of Estimates documents, the Modernization of Comptrollership Initiative, the Financial Information Strategy (FIS), an increased emphasis on service quality, and guidelines on preparing Treasury Board submissions that support managing for results. All of these emphasize and encourage a focus on results.

What Is "Managing for Results"?

20.17 Despite the government's commitment to managing for results, it continues to be a challenge and the concept still is not always understood. In our 1997 Report, Chapter 11, we discussed the government's efforts to move toward managing for results:

> In the past, managers were primarily held accountable for the prudent use

> of the resources they were given, the authorities they used and the activities they carried out....This did not encourage a focus on results produced by the resources; rather, compliance dominated managers' attention (paragraph 11.9).

Managing for results in departments requires long-term strategic planning toward objectives while operating day-to-day activities and systems.

> When managing for results, ministers, senior officials, and managers... make decisions based on what a program is achieving for Canadians — the results that citizens value — and at what cost....Holding managers accountable for results encourages them to focus more on results. (11.7-11.9)

20.18 A variety of terms are used to describe managing for results, including results-based management — frequently used in government publications — and performance-based management. These terms are essentially interchangeable, but for consistency we will use managing for results.

Making decisions based on empirical information — learning — is the heart of managing for results.

20.19 Managing public sector programs and organizations is a complex endeavour. There are several objectives to achieve, many information requirements to meet, external factors to take into account, public scrutiny to withstand, and many unknowns to cope with. Managing requires long-term strategic planning toward stated objectives while operating complex systems and processes day to day. Managers need to step back from time to time, and review activities and the outputs of activities to see if they are still the most appropriate to reach the long-term objectives. At the same time, as stated in *Results for Canadians*, managers must also be able to "ensure fairness, equity, and reasonableness of treatment to protect the broad interests of citizens." These enduring public sector values are part of the results governments seek to achieve. Exhibit 20.1 illustrates the main elements of managing an organization for results.

20.20 The exhibit illustrates the traditional cycle of planning, implementing, monitoring, reporting, and revising plans, but it adds a key component, learning: making decisions based on empirical information. This is at the heart of managing for results. By monitoring the results of its activities through a variety of means (evaluations, audits, performance measures, scans), an organization can learn what is working and what is not working. These activities can also provide information about other factors outside its control.

20.21 For example, monitoring will indicate whether AIDS information campaigns are helping to change behaviour; whether agri-food research and development activities are generating a positive return on investment (crops with higher yield and quality) while conserving the environment; and whether conservation programs are sufficiently reducing the risks to endangered species.

20.22 Based on information gathered through monitoring, the organization can then either modify its current operations or, more fundamentally, revise its business and strategic objectives. The organization can report to external bodies such as Parliament on what it has accomplished. Managers of government programs need information from the same sources if they are to manage for results and gauge their progress toward stated objectives. Gathering and assessing the relevant data and information — the monitoring element in Exhibit 20.1 — requires systematic effort and a variety of monitoring tools.

20.23 A critical step in moving toward managing for results is to align a department's various strategic objectives with the major groupings of its programs and services (often called business lines) and then with its individual programs. It is essential that departments clearly understand how the various program and service delivery activities support, and will lead to, the achievement of their higher-level or strategic objectives. Many departments find this a daunting challenge.

An overview of results and performance concepts

20.24 Discussions of performance and managing for results can be confusing, as they involve a number of specific terms and several concepts that are important to distinguish. Exhibit 20.2 presents some of the key terms and concepts.

What We Found in 1997

20.25 We reported in 1997 that managing for results was not widespread in government at that time. There were a number of government initiatives that supported a focus on results, but concerted effort was needed to bring about real change. We identified a few cases where managers were measuring results, communicating information on results and using that information to improve results. However, across government the practice of managing for results appeared quite limited and we wanted to encourage its progress. We identified lessons learned, among them key factors that had supported managing for results; they included the leadership and commitment of senior management and an organizational climate that encouraged managing for results. We concluded that ongoing attention was needed across the government if managing for results was to be adopted throughout government.

In 1997, we reported that managing for results was not widespread in government and concerted effort was needed to bring about real change.

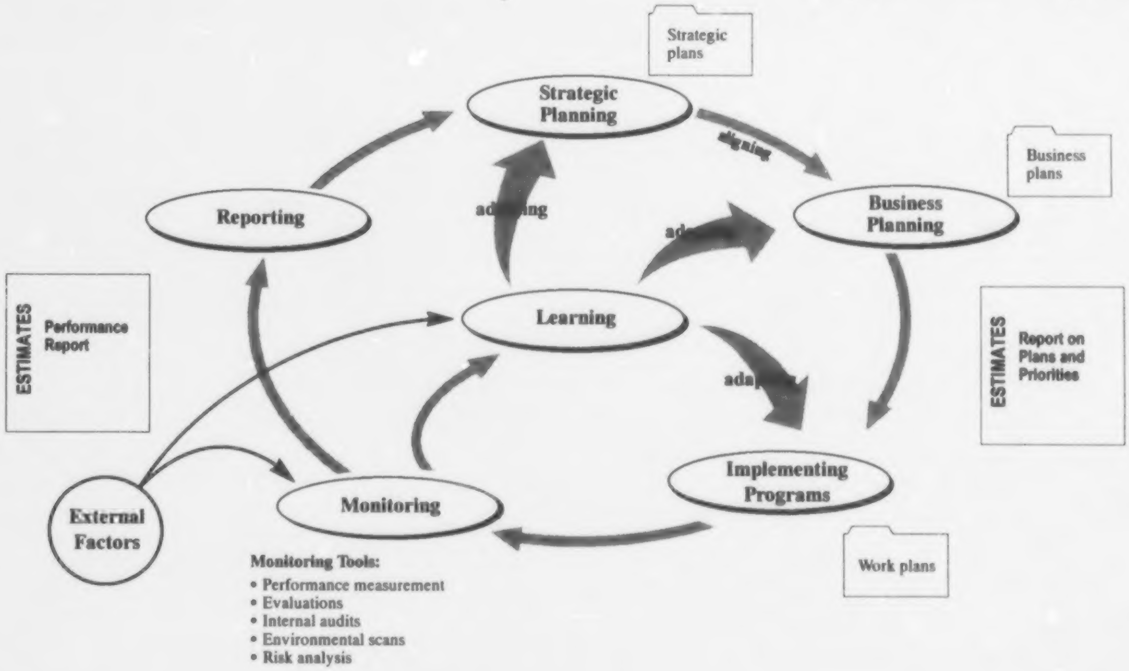
Focus of the audit

20.26 Our current audit looked at the progress a number of major departments have made in managing for results. The audit was in part a follow-up on the cases we reported in 1997, Chapter 11. This time our objectives were to:

- examine the extent to which selected departments are managing for results,

Exhibit 20.1

Managing for Results: A Learning Process


Strategic plans
Strategic Planning
aligning
Business plans
Business Planning
Reporting
adapting
adapting
ESTIMATES
Performance Report
Learning
ESTIMATES
Report on Plans and Priorities
adapting
Implementing Programs
External Factors
Monitoring
Work plans

Monitoring Tools:
- Performance measurement
- Evaluations
- Internal audits
- Environmental scans
- Risk analysis

including their use of information on performance to manage programs;

- identify lessons learned in managing for results; and
- assess the leadership the Treasury Board Secretariat has provided to support managing for results throughout government.

20.27 During this audit, we examined five large departments, covering a variety of program types. In each department we asked officials to help identify areas where the use of performance information could be expected. Exhibit 20.3 lists the programs and business lines that we selected (see Appendix A for background descriptions). We examined them to determine to what extent performance information is actually used and to what

Exhibit 20.2

Results and Performance Terms

The concept of **performance** deals with how well things are done:

- Are the expected results accomplished?
- Are they accomplished within budget and in the most efficient manner?
- Are there undue, unintended consequences?

It also deals with whether the performance will continue or improve:

- Is the organization learning from past experience and adapting?

Performance, then, covers a number of ideas. Determining the specific aspect of performance to measure, and when, is not always straightforward. Government programs undertake a number of **activities** that produce a variety of **results**. Programs deliver two kinds of results: **outputs**, the direct products and services produced by government activities, and **outcomes**, the consequences of those outputs on Canadians and our society. Outputs are results that managers can control, while outcomes are influenced by factors outside the programs of managers.

Government organizations and programs seek to achieve certain aims or objectives. **Objective** is used to refer to general statements of intent, akin to the end outcome statements. It is the intended or planned outputs and intermediate outcomes that are key to managing for results. Actual performance can be assessed only in comparison with some level of expected performance. Establishing meaningful performance expectations is therefore an essential part of assessing a program's performance and managing toward those ends.

Elder Abuse Prevention Program

Results	**Specific Program Result**
Outputs	**Public education** • Educational material on elder abuse with targeted distribution • Anti-abuse campaigns
Intermediate outcomes	**Increased awareness** • Increased co-ordination among professional agencies, including police, hospitals and banks • Increased understanding of elder abuse • Improved identification of victims and abusers • Increased number of reported incidences of elder abuse • Increased number of shelter networks
End outcomes	**Increase in well-being of older Canadians** • Fewer incidences of elder abuse • Reduced costs associated with abuse

extent other elements of managing for results are present. We also sought to identify the lessons these departments have learned in managing for results, as well as the obstacles they have faced.

20.28 As follow-up to our 1996 Report, Chapter 3, on federal program evaluation, we also examined how the same five departments plan for evaluation and use evaluation results to improve programs.

20.29 The second part of this chapter describes a study that focussed on managing horizontal issues for results. We identified the challenges that horizontal issues present and some factors that have helped (and hindered) in managing them for, and reporting, results.

20.30 Further details on our objectives, criteria and approach can be found at the end of the chapter in **About the Audit**.

Observations and Recommendations

What Happened to Our 1997 Cases?

20.31 We followed up on the cases discussed in our 1997 Report, Chapter 11 namely, the North American Waterfowl Management Plan (Environment Canada), Investigation and Control (Human Resources Development Canada), Canadian Centre for Mineral and Energy Technology (Natural Resources Canada), and the Travellers Program (Canada Customs and Revenue Agency). Our key finding was that these programs have continued since 1997 to manage for results. Appendix B provides further details on our follow-up.

20.32 Our 1997 Report emphasized the importance of fostering an approach of managing for results in an organization, and the important part that senior leadership plays in this. Over time, programs change and so do leaders. Indeed, each of our case studies has changed since 1997, some considerably, and all of them have seen a change of leadership. Our follow-up observations suggest that if implanted well enough in an organization, managing for results can withstand change and continue, even as programs adapt to new circumstances.

This audit examined the progress five large departments have made in managing for results.

A Framework for Department-Wide Managing for Results

20.33 Based on a review of the relevant literature and on the several specific cases we examined in the federal government, we presented a framework in 1997 for successfully managing a program for results. The framework had four elements:

- fostering an organizational climate that encourages managing for results;
- agreeing on expected results;
- measuring actual results to improve performance; and
- effectively reporting performance.

20.34 We think this framework is still valid to use in managing programs for results. However, based on what we found in our current examination of

Exhibit 20.3

Programs and Business Lines Examined

Agriculture and Agri-Food Canada
- Prairie Farm Rehabilitation Administration
- Net Income Stabilization Account

Correctional Service Canada
- Reintegration of Offenders
- Aboriginal Reintegration

Environment Canada
- Nature
- Canadian Wildlife Service

Industry Canada
- Trade
- Connectedness

Natural Resources Canada
- Canada's Model Forest Program
- Aeronautical and Technical Services

including their use of information on performance to manage programs;

- identify lessons learned in managing for results; and

- assess the leadership the Treasury Board Secretariat has provided to support managing for results throughout government.

20.27 During this audit, we examined five large departments, covering a variety of program types. In each department we asked officials to help identify areas where the use of performance information could be expected. Exhibit 20.3 lists the programs and business lines that we selected (see Appendix A for background descriptions). We examined them to determine to what extent performance information is actually used and to what

Exhibit 20.2

Results and Performance Terms

The concept of **performance** deals with how well things are done:

- Are the expected results accomplished?
- Are they accomplished within budget and in the most efficient manner?
- Are there undue, unintended consequences?

It also deals with whether the performance will continue or improve:

- Is the organization learning from past experience and adapting?

Performance, then, covers a number of ideas. Determining the specific aspect of performance to measure, and when, is not always straightforward. Government programs undertake a number of **activities** that produce a variety of **results**. Programs deliver two kinds of results: **outputs**, the direct products and services produced by government activities, and **outcomes**, the consequences of those outputs on Canadians and our society. Outputs are results that managers can control, while outcomes are influenced by factors outside the programs of managers.

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Industry Canada
- **Trade**
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Natural Resources Canada
- **Canada's Model Forest Program**
- **Aeronautical and Technical Services**

department-wide efforts, we have modified the framework slightly. We have highlighted the need to manage for results department-wide. We have also pointed to the need to use performance information for improving programs and identifying good practices (see Exhibit 20.4).

20.35 In addition, we have highlighted the need to develop and reach agreement in the department on a strategic results framework. Reaching agreement on the broad grouping of results that a department is trying to achieve is an important step in organizing to manage for results. A department needs its key players to agree on the strategic results it intends to achieve, on the general strategies it will use, and on the way it will structure itself to achieve those results. We observed that departments are using their business line structure — the planning, reporting and accountability structure — to link the

Exhibit 20.4

Framework for Managing Departments for Results

Managing an organization for results requires:

1. **Fostering an organizational climate that encourages managing for results**

   Fostering an appropriate organizational climate is essential and requires:

   - **Demonstrating commitment and leadership**. Commitment is demonstrated by such things as strong senior support, widely communicated mission statements, effective guidance to line managers and thinking that extends over a number of years.
   - **Using external and internal levers**. Interests in common with external partners are recognized and used along with external and internal pressures and events to encourage a focus on results.
   - **Creating supporting incentives**. Appropriate incentives are in place to encourage the measurement of performance and the use of performance information.
   - **Developing a capacity to learn and adapt**. Learning from past experience, proactive monitoring of the environment and developing a capacity to cope with changing circumstances are encouraged.
   - **Building expertise**. Learning is supported through training, professional development, use of a common terminology and the sharing of experience.

2. **Agreeing on a strategic results framework**

   The organization needs to come to an agreement among key players on the overall strategic results it intends to achieve and how best to structure itself to achieve them.

   - **Agreeing on strategic objectives and strategies**. Agreement is reached on a set of strategic objectives for the organization, outlining what it intends to accomplish using which strategies over a multi-year time frame, in light of the organization's mission, past experience and external environment.
   - **Agreeing on results alignment**. Agreement is reached on how the strategic objectives are aligned down through the organization to individual program areas.

3. **Agreeing on expected results and strategies for programs**

   Managing for results entails reaching reasonable agreement among departmental management, program staff, external partners and other key stakeholders on what outcomes the programs are intended to accomplish and the specific strategies for achieving them.

   - **Agreeing on outcome objectives and strategies**. Agreement is reached on a set of outcome objectives for each program and the strategies to be used, outlining the program's intended accomplishments in light of the organization's strategic objectives.
   - **Agreeing on performance expectations**. Agreement is reached on a set of realistic and challenging statements of what is intended to be accomplished. Expectations are clear and concrete, relate to the outcome objectives and specify a time frame for their achievement.
   - **Agreeing on performance indicators**. Agreement is reached on a manageable set of qualitative or quantitative indicators of each program's performance that relate to the agreed outcome objectives, and that will be used to assess and manage the program.

Fe

Exhibit 20.4 (cont'd)

4. Measuring results to track performance

The organization needs to gather and communicate information on performance:

- **Measuring performance**. Practices exist for collecting and assessing program performance and costs using the indicators identified and agreed on.
- **Evaluating programs**. Practices exist to measure the performance of programs through evaluation.
- **Reviewing and updating indicators and measures**. Based on experience gained, changing circumstances and experience in similar programs elsewhere, the performance indicators, expectations, and measurement and communication strategies are periodically reviewed and improved.

5. Using information to improve performance

Realizing the benefits from managing for results requires:

- **Using performance information**. The performance information gathered and assessed is used to improve program performance.
- **Identifying good practices**. Based on what is found to work and not work, lessons and good practices are identified and used to improve performance. Learning occurs.

6. Effectively reporting performance

Effective reporting to allow interested stakeholders to judge how well programs and the organization are doing requires:

- **Describing the context and the strategies used**. The mission, mandate and objectives of the organization, the major strategies used, and the related external context are discussed.
- **Stating meaningful performance expectations**. Clear and concrete key performance expectations are focussed on outcomes.
- **Reporting performance accomplishments against expectations**. Key accomplishments are related to expectations and are attributed, in whole or in part, to the activities undertaken.
- **Demonstrating the capacity to learn and adapt**. The ability to learn from past performance and to adapt the program to external changes is demonstrated.
- **Reporting on the fairness and reliability of the performance information**. The performance information reported is fair and reliable.

department's internal management and accountability regime to its objectives, business lines, resource requirements and performance targets.

Managing for Results Still Not an Integral Part of Managing Departments

What we expected

20.36 In the three years since our 1997 study, the government has remained committed to a focus on results. In 1997, we suggested it could take the government four to five years to shift its focus from managing activities to using performance information routinely for better management of programs.

20.37 This time in our audit, we expected to find that the practice of managing for results had advanced, with its key elements evident in many areas of government. We looked for signs of senior support, performance expectations that were well articulated and understood, performance indicators, and systems for collecting and measuring data. We particularly expected to see performance being monitored in many government programs and the information being used to improve the management of operations and policy.

More attention to results

20.38 Overall, we saw tangible efforts in all the audited departments to foster a climate of results, including the strong commitment and support of senior management. Most of the departments department-wide efforts, we have modified the framework slightly. We have highlighted the need to manage for results department-wide. We have also pointed to the need to use performance information for improving programs and identifying good practices (see Exhibit 20.4).

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More attention to results

20.38 Overall, we saw tangible efforts in all the audited departments to foster a climate of results, including the strong commitment and support of senior management. Most of the departments were engaged in significant efforts to plan how they would manage for results. All the programs we examined were developing or fine-tuning performance measures.

Performance measurement and use of performance information has made limited progress since 1997.

20.39 We reported in 1997 that managing for results was not widespread across government and had made limited progress. Now there is more attention to results. All government departments now set out their key results commitments, which are used as the basis for their planning, reporting and accountability structure. In the departments we examined however, the actual measurement and use of performance information has made limited progress.

20.40 **Alignment for results is needed.** As we have indicated earlier, a department needs its senior managers to understand and agree on its key results commitments and how it will structure itself to achieve them. During our audit, we have found that departments, to focus on results, often need to realign their management structures and processes according to the key results they are seeking and not to their programs or activities. This can be challenging.

A department needs its key players to agree on the intended results and how best to structure itself to achieve them.

20.41 The department needs to begin to consider how to structure itself in terms of its key results commitments. This may require changing the organizational structure or establishing business lines that span parts or all of the organization. Departments frequently manage by business line, each headed by an assistant deputy minister who is responsible for the key results commitments that contribute to the agreed department-wide strategic results framework.

Use of performance information is limited

20.42 Our audit looked at how performance information is used at the department-wide or corporate level. We found little use of performance information to improve management, or to shift priorities and reallocate resources across business lines. Business lines in the five departments we examined are quite large and involve sizable groupings of departmental activities and programs. Perhaps as a result, these business lines are often managed separately by the deputy minister and the responsible assistant deputy minister.

20.43 In two of the five departments (Agriculture and Agri-Food Canada and Correctional Service Canada), we found that corporate managers receive information regularly on a number of performance indicators. This has allowed the departments to track important trends in performance and to keep informed of key changes in their environment. For example, Agriculture and Agri-Food Canada uses a "dashboard" of performance indicators to identify emerging problems and to signal the possible need for more information or future decisions.

20.44 We also looked at how performance information is used by programs. We asked the five departments to identify the programs most likely to be managing for results and, in particular, most likely to be using performance information. It took some time before most of the departments could identify such programs, often with our help. It was clear that managing for results was not widespread in most of these departments' programs.

20.45 In October this year, we reported our assessment of financial management capabilities in selected departments. A common gap we found again was the limited ability to integrate financial and non-financial information. Most departments indicated that they had only begun the task of integrating financial and operational systems. In this audit, we also found a poor link between results and cost information. In our examination of 10 programs, we found that departmental managers had only limited cost information available.

Planning for Results But Not Enough Implementation

Extensive planning to manage for results

20.46 Developing the tools to use in managing for results is an important step. We found considerable department-wide planning under way in the five departments we reviewed. Common planning activities included developing a performance and/or accountability framework, identifying and revising key indicators of performance to measure, and revising program business plans in light of the department's strategic results framework. The following are some planning activities we noted:

- At Agriculture and Agri-Food Canada, logic charts were being developed to demonstrate the linkages among a program's inputs or activities, its outputs, and its outcomes. Exhibit 20.5 illustrates a logic chart that the Prairie Farm Rehabilitation Administration developed for the Water Aeration of Surface Reservoirs project. The exhibit shows one of three results expected for this project and considered necessary to achieve the long-term benefit: better quality of water in the rural Prairies. The logic chart includes clear statements of intended outcomes; performance measures; and concrete, measurable targets with timeframes.

- In Environment Canada, numerous activities were under way to implement the Department's performance measurement strategy across the business lines. Planning activities in the Nature business line have included selecting performance indicators, defining data collection strategies, and building logic models for key intended results — including "conserving biological diversity", a result delivered primarily by the Department's Canadian Wildlife Service. The Department has stated that in the coming months the business lines will determine what data they need to support the logic models and indicators, and then will implement data collection strategies

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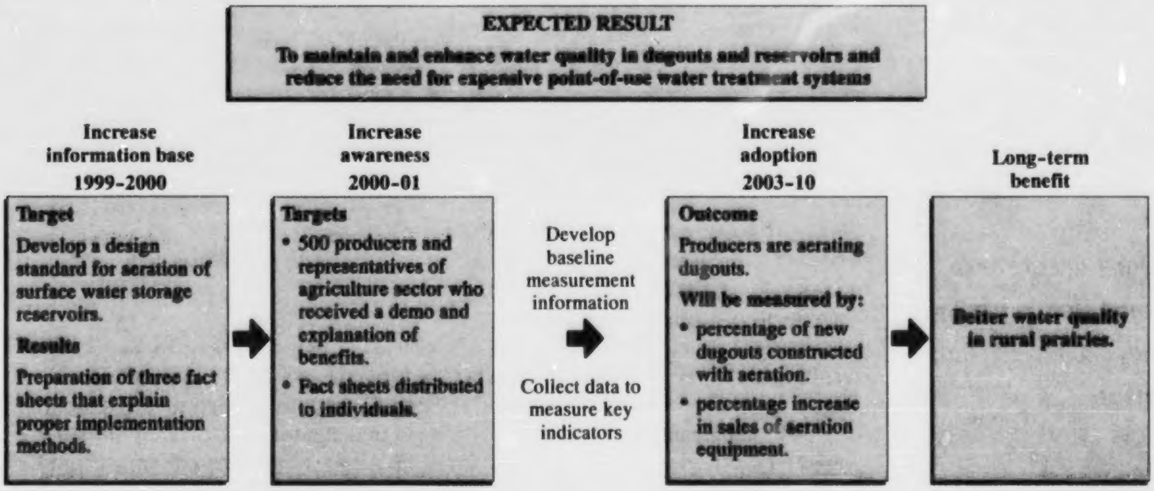
Exhibit 20.5

Logic Chart for the Water Aeration of Surface Reservoirs Project



EXPECTED RESULT

To maintain and enhance water quality in dugouts and reservoirs and reduce the need for expensive point-of-use water treatment systems

Increase information base 1999-2000

Target

Develop a design standard for aeration of surface water storage reservoirs.

Results

Preparation of three fact sheets that explain proper implementation methods.

Increase awareness 2000-01

Targets

- **500 producers and representatives of agriculture sector who received a demo and explanation of benefits.**
- **Fact sheets distributed to individuals.**

Develop baseline measurement information

Collect data to measure key indicators

Increase adoption 2003-10

Outcome

Producers are aerating dugouts.

Will be measured by:

- **percentage of new dugouts constructed with aeration.**
- **percentage increase in sales of aeration equipment.**

Long-term benefit

Better water quality in rural prairies.

Source: Agriculture and Agri-Food Canada

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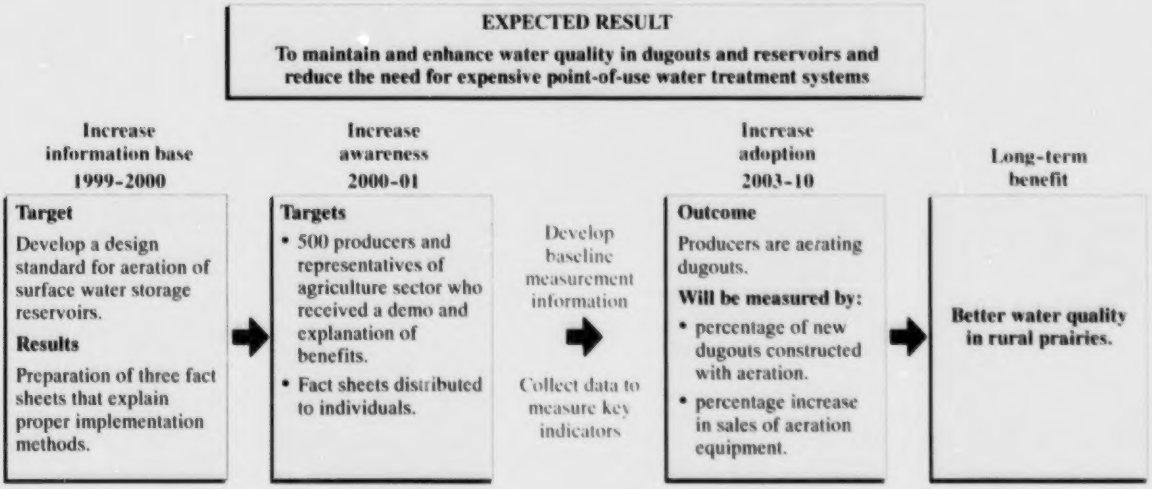
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Outcome
Producers are aerating dugouts.
Will be measured by:
• percentage of new dugouts constructed with aeration.
• percentage increase in sales of aeration equipment.
Long-term benefit
Better water quality in rural prairies.

Source: Agriculture and Agri-Food Canada in a phased approach over the next several years.

- Natural Resources Canada has continued to develop its performance measurement framework, and has focussed on developing indicators of performance. The performance measurement working group has consulted extensively with program managers and stakeholders to review draft performance indicators and seek guidance on refining them. Natural Resources Canada has developed criteria to assess and refine each indicator and establish targets, where appropriate. Many of the current performance indicators have targets that are "directional" (for example, "to maintain or improve Natural Resources Canada's contribution"). The Department has stated that after it evaluates the directional targets, it will be in a position to consider establishing numerical targets.

A need to move beyond planning

20.47 As already noted, we found some progress in measuring performance, but use of the information is still limited. However, we found that planning to manage for results is extensive, especially at the corporate level, and in many cases it has gone on for years. Departmental officials often told us they expect to use performance information more regularly across the department, "soon". Practical use of performance information and costing of results always seem to be promised for "next year".

Departments have been slow in moving beyond the planning stage.

20.48 Commitment to move beyond the planning stage needs to be demonstrated across the organization. Some departments seem to be searching for the "perfect" departmental structure to manage for results, and they continually change what they have set out. In other departments, a change of deputy minister or minister triggers a reconsideration of the strategic results framework they have been developing.

20.49 In 1997, we reported on the good beginning of managing for results in Environment Canada. It had a strategic results framework in place and appeared ready to implement it across the Department to manage for results. Yet three years later, it is essentially at the same corporate planning stage, with a different results framework in place. It is still trying to agree on performance measures, and for the most part measurement has not yet begun. Industry Canada has been developing its strategic results framework for two years, with numerous iterations. The Department agreed on performance measures only recently. Natural Resources Canada and Agriculture and Agri-Food Canada have also continued to revise their planning tools, including their results frameworks and performance measures. The reasons may differ but the result is the same: not moving quickly enough beyond the phase of designing departmental frameworks that are crucial to the next stage of managing for results.

20.50 The challenge for departmental managers is to move on — to implement the various planning tools, measure against the established indicators and use this information to improve the management of their programs. Managing for results means that managers may change what they do once they know what is working and what is not. This applies equally to developing and using performance measures. Sound measures are those that managers will use over a period of time. If measures provide data that prove to be poor or not useful, the measurement strategy needs to change.

20.51 Senior management of departments should move their organizations beyond merely planning to manage for results. They should get on with measuring performance and using the information to achieve the intended results.

Some Are Managing for Results

20.52 We did note some elements of managing for results in all the selected departments.

Performance information used in some business lines and programs

20.53 In the 10 programs we examined, we did find some use of information on results (see Exhibit 20.6). We found four programs that use performance information routinely to improve their operation and design: Agriculture and Agri-Food Canada's Net Income Stabilization Account; Prairie Farm Rehabilitation Administration; Correctional Service Canada's Reintegration of Offenders; and Natural Resources Canada's Aeronautical and Technical Services. In these programs, the commitment of senior and middle management is evident; indicators of performance are clearly linked to planned results; and the information is used in planning and in program design. Managers consider performance information to be reliable, and useful for decision making. For example, information on results has helped in identifying the need for new programs and redesigning existing programs.

20.54 The six other programs ranged from some use of performance information to none. They used information more to improve program operations and design than to revise performance expectations and reallocate budgets. Overall, the programs we reviewed used performance information less than we had expected.

20.55 A previous audit addressed managing government services for results. Our April 2000 Report, Chapter 1, Service Quality cited several services that were collecting performance information. With the exception of telephone services, however, few of the service lines

Exhibit 20.6

Use of Performance Information in 10 Programs

Programs	Performance Information	
	Improve operations and design	**Update expectations and reallocate budgets**
Agriculture and Agri-Food Canada		
• Prairie Farm Rehabilitation Administration	Routine	Some
• Net Income Stabilization Account	Routine	Some
Correctional Service Canada		
• Reintegration of Offenders	Routine	Some
• Aboriginal Reintegration	Some	Some
Environment Canada		
• Nature	Limited	None
• Canadian Wildlife Service	Some	Some
Industry Canada		
• Trade	Limited	None
• Connectedness	Some	None
Natural Resources Canada		
• Canada's Model Forest Program	Some	Limited
• Aeronautical and Technical Services	Routine	Some

examined were using performance information to improve service.

20.56 Our follow-up of the 1997 audit of Human Resources Development Canada's transition to managing for results has reported that the Department has continued to make progress (Auditor General's Report, December 2000). In the Employment Insurance program, the protection of public funds against fraud and abuse continues to be managed for results; and key performance information is analyzed more thoroughly, making it more useful to managers.

Other elements of managing for results are present

20.57 Although we found that information on results was being put to only limited practical use, other elements of managing for results were evident in the programs and business lines we examined. Those elements included:

- fostering an organizational climate that encourages managing for results;
- measuring performance; and
- developing a strategic framework that outlines key results commitments and planned performance expectations.

Senior commitment, leadership and appropriate incentives are key elements in moving forward with managing for results.

20.58 Fostering an organizational climate for results is key. Senior commitment and leadership are key elements, particularly in moving forward with managing for results, past the planning stage. Those elements need to be supplemented by appropriate incentives that support performance measurement and the use of performance information. More efforts are needed to remove impediments and overcome resistance.

20.59 In some of the programs we examined, we found some form of performance contract among the senior managers that encourages them to focus on results. Performance contracts identified the results expected over the coming years, and were tied to relevant business plans. Performance contracts are a good incentive to manage for results, to the extent that they specify results and not just activities.

20.60 We observed that the pay-at-risk initiative was used in a few departments to focus attention on results and performance reporting. This government-wide initiative was introduced in 1998 to allow managers to earn up to 10 to 20 percent of pay on the basis of performance, measured against targets agreed to at the beginning of the year.

20.61 We found a number of other tangible initiatives to foster a climate that supports managing for results. Some departments recognized their limited capacity and expertise in this area. Some of them addressed it by creating a performance measurement group; others recruited consultants; and some made good use of the experience in their evaluation unit.

20.62 We also observed the following examples of a supportive environment:

- The Commissioner and senior officials of Correctional Service Canada were committed to obtaining information on results and using the information to analyze the results. Evidence of that commitment is the regular monitoring of results, which has pointed to specific programming needs of offenders. For example, the Aboriginal reintegration program is being developed to meet the programming needs of the Aboriginal inmate population. There is strong buy-in from middle managers, who ensure that data systems are maintained; they use performance information in managing their programs. Finally, the Service uses the pay-at-risk initiative as a lever to ensure that managers focus on results, and it closely monitors their performance contracts.
- In Agriculture and Agri-Food Canada, strong commitment and leadership was evident at the levels of deputy minister and assistant deputy

ministers. The Department has dedicated resources, with additional Treasury Board funding, to develop a "dashboard" of performance indicators that were closely monitored by the Deputy Minister. In addition, a working group was established to launch the Department's performance measurement initiative. The Assistant Deputy Minister, Corporate Services Branch, provided guidance to the working group and has chaired an advisory committee on performance measurement. The committee members included the assistant deputy minister over each business line, senior managers, and several stakeholders.

- Industry Canada has designated assistant deputy ministers as champions of its "strategic objectives", which correspond to business lines. The Deputy Minister reinforced a strong message to managers that resource allocation among programs should be based on their ability to show results. Dedicated resources were given to the Corporate Planning and Performance Co-ordination Directorate to manage the process of preparing reports on plans and priorities and departmental performance reports. The Directorate represented all sectors of the Department. It also had a mandate to develop and implement a performance measurement strategy and support the corporate vision of results.

20.63 Some progress in measuring performance. Managing for results means measuring outputs and outcomes with a view to learning from experience. We found that at present, it is largely activities and outputs that are measured. Over time, we would expect to see an increase in the measuring of intermediate and end outcomes that are linked to the program activities. In time, we would expect departments to develop cost-effective measurement tools to cost activities, as a basis for allocating resources according to expected results. Finally, evaluation can help in this measurement task.

20.64 The five departments we audited set out a strategy for measuring results, either in the departmental report on plans and priorities or in a separate corporate planning document. We observed some level of performance measurement in the 10 programs we audited:

- Correctional Service Canada routinely measures its accomplishments and results, particularly in its Reintegration business line. The Service has a vast range of indicators and measures that senior managers use to manage this business line. Integrated data systems track performance at the individual level (for example, how each offender is progressing through his/her release plan), at the institution level (make-up of the offender population), and at the regional and national levels (rates of parole revocation and release rates).
- Managers of Industry Canada's strategic objective, "Connectedness", recognize that medium- and longer-term impacts should be measured. Recently developed performance information focusses on the socio-economic impacts of "connectedness" — people's ability to use information and communication technologies and to interact through them. Work continues with the Conference Board of Canada to further develop a "connectedness index", which is focussed on quantifying affordability, access, usage and socio-economic indicators. One of the next steps will be to refine a framework for examining the impacts and outcomes of connectedness.
- Natural Resources Canada's Aeronautical and Technical Services has made significant strides in measuring performance in this largely production-oriented environment. Cost recovery of aeronautical services and products (navigation charts and publications) has meant extensive tracking of cost information and a strong client focus. The program has implemented principles of a quality management framework to assure product quality,

Performance measurement is still largely focussed on activities and outputs.

Over time, we expect to see an increase in measuring intermediate and end outcomes that are linked to the program activities.

efficiencies, and responsiveness to clients. Service standards are set and tools to measure client satisfaction are used regularly.

Getting on with measuring the results they achieve is the most immediate challenge departments face.

20.65 Getting on with measuring the results they achieve is perhaps the most immediate challenge departments face. The next step beyond planning to manage for results is implementing a measurement strategy — actually measuring a wide range of outputs and outcomes, learning which measures are most useful by using the information, and adjusting measurement in the future.

Learning From Others' Experience

20.66 Initiatives in managing for results are common in other jurisdictions. Our 1997 study noted a number of results-oriented initiatives in several jurisdictions, both in Canada and elsewhere. We observed in 1997 that some of these jurisdictions had enacted accountability legislation; since then, more have done so.

20.67 In Alberta and British Columbia, legislation requires both government-wide and ministry preparation of multi-year business/performance plans to be presented to the legislature. It also requires annual reporting of progress made toward achieving the expected results set out in those plans. In Quebec, new legislation focussed on improved public service is highly supportive of managing for results. In order to enhance accountability, the use of multi-year strategic plans and performance agreements is now mandatory for all departments.

20.68 Chapter 19 of this Report, Reporting Performance to Parliament: Progress Too Slow, recommends that in light of the modest progress made in reporting performance to Parliament, it may be time for the government to consider introducing accountability legislation. As we observed in the audit discussed here, managing for results is still not an integral part of managing departments. There is a clear need to get beyond planning and secure further progress. Although legislation alone will not ensure good reporting or managing for results in departments, it could serve as a signal, as Chapter 19 suggests, that measuring and using performance information is not a passing fad.

20.69 Literature review identifies lessons learned. We conducted an extensive review of the literature to identify lessons learned and trends in other jurisdictions with experience in managing for results. Exhibit 20.7 presents a summary of these lessons, related to promoting favourable conditions for implementation; developing performance measurement systems; and using performance information. A full report can be found at www.oag-bvg.gc.ca.

20.70 We noted many consistencies between the findings of our literature review and findings from our examination work in departments on the lessons learned in implementing managing for results.

Need for Concerted Leadership by Treasury Board Secretariat

20.71 While the Treasury Board Secretariat has actively promoted improved reporting in a number of quite tangible ways (as discussed in Chapter 19), its efforts to encourage managing for results in the day-to-day operations of departments have been less evident.

20.72 A number of Treasury Board initiatives and publications relate to managing for results, including the Modernization of Comptrollership initiative, the President of the Treasury Board's annual report to Parliament on Managing for Results, and the Treasury Boards publication, *Results for Canadians: A Management Framework for the Government of Canada* (see

Appendix C for a description of these and other initiatives). While these provide some recognition of the need to manage for results, discussion in them of specific practices is quite limited. These initiatives originated in different parts of the Secretariat that give different levels of attention to managing for results. It is often not their prime focus.

20.73 **Limited evidence that the Secretariat uses information on departmental results.** In 1997, we suggested that a significant incentive for departments to manage for results would be clear evidence that the Treasury Board was indeed using performance information in its deliberations. Our interviews at the Treasury Board Secretariat suggested that while it occasionally uses departmental performance information, it does not use it systematically or routinely in its decision making. Yet this is stated as a "key responsibility" of the Secretariat as a management board: to "compile information sufficient to assess program performance and program integrity across government."

Exhibit 20.7

Lessons on Effectively Implementing Managing for Results

Promoting Favourable Conditions

Organizational Factors

- A regime customized to manage for results is critical.
- Take time and maintain momentum.
- Linking performance measures to the policy or strategic framework is key.
- Align management systems to support implementation.
- Providing adequate financial and human resources is critical.
- Identifying stewardship over performance measurement process is important.
- Pilot projects can be useful.

Human Factors

- Developing a performance management culture is critical.
- A practical understanding of accountability is needed.
- Senior-level leadership and involvement are essential.
- Full participation fosters support for implementation.
- Training and education are key ingredients of success.
- Use existing expertise to support implementation.
- Communicate the purpose of the performance measurement system

Developing Performance Measurement Systems

- Use a manageable number of indicators.
- Clearly define key terms and concepts.
- Using the logic chart can be very helpful.
- Align performance measures with decision-making authority and accountability.
- Credible performance information is essential.
- Performance standards and targets are essential for measurement.
- Use baseline data to set targets.

Using Performance Information

- Demonstrable use of performance information is essential.
- Evaluation and performance measurement are complimentary.
- Incentives can be used to foster support.
- Performance reporting is needed for decision-making.
- Review and adjust performance measurement systems.

Source: Office of the Auditor General, 2000, Implementing Results-Based Management: Lessons from the Literature.

20.74 Treasury Board Secretariat has not identified "results" expected in government's managing for results. The Secretariat has not set out the results planned for the government in managing for results — specifically, what is expected in departments and by when. In the absence of clear expectations, it may be difficult for the Treasury Board Secretariat to know the kind of support it should be providing and whether departments are making enough progress. The Secretariat has not had a clear plan to focus its activities in this area. Its publication *Results for Canadians* calls for a strong focus on results in managing the Government of Canada. Officials told us that the Secretariat will use this publication as a basis for action plans to meet the government's commitment to managing for results.

The Treasury Board Secretariat has a role to champion managing for results and to support departments in this effort.

20.75 The Treasury Board Secretariat's efforts are present, but diffused. To be effective, it needs to concentrate more on defining concrete expectations and practical strategies for managing for results. Otherwise, it is not clear how it will fulfil the role it recently set for itself as a management board to champion managing for results.

20.76 The Treasury Board Secretariat should develop concrete ways to champion managing for results in government and to support departments in this effort. It should actively assemble and communicate practices that have proved successful in dealing with the challenges that departments face.

Evaluation Is a Vital Element

Evaluation should be an integral part of program management and a department's strategy for managing for results.

20.77 Evaluation has an important role to play in managing for results. It can provide important information on program performance that is not gathered by ongoing monitoring systems, and can help managers understand why programs are working or are not. Evaluation can assist in the development of the results-based management and accountability frameworks the Treasury Board now requires, which help managers identify the information they need to collect in order to demonstrate results. We would therefore expect evaluation to be an integral part of program management and part of a department's strategy for managing for results.

Following up on our 1996 audit

20.78 In 1996 we reported on the state of evaluation in the federal government (1996 Report, Chapter 3). We made several recommendations to the Treasury Board Secretariat and to deputy heads. In the current audit, we followed up on those recommendations and looked at how evaluation is being used in managing for results.

20.79 Revisiting our 1996 recommendations. The wording of our 1996 recommendations reflected the circumstances at that time. Since then, there have been a number of changes in the government's expenditure management system and in the Secretariat's reporting to Parliament. We made three recommendations to the Treasury Board Secretariat, based on the following observations.

20.80 We had found that the bulk of evaluation activity was focussed on operational and lower-level issues and concerns, and that significant aspects of government activity were not being evaluated and reported. In our view, evaluation needs to play a strategic role in government as a whole in addition to its role in departments. The government needs the capacity to effectively evaluate interdepartmental and other horizontal issues. We recommended that some direction should be provided to the evaluation functions in departments on overall evaluation priorities so that the government is able to evaluate the important areas, including horizontal issues, of government programming and interest (paragraph 3.74).

20.81 Parliament has frequently expressed an interest in the evaluation capability of government and the Public Accounts Committee has asked to be kept informed about the state of evaluation. We recommended that the Secretariat should report to Parliament on the state of the government's evaluation capacity (paragraph 3.86).

20.82 It was hard to identify what was then called evaluation. The "review" function was diffusing effectiveness measurement, which was central to evaluation. We thought that if review were to be encouraged, it should have appropriate standards that would differ from those used for evaluation. We recommended that quality standards be set out for evaluation and any other related effectiveness measurement activity of government (paragraph 3.106).

20.83 In our view, our 1996 recommendations are still relevant.

Our assessment of progress

20.84 We believe that progress on these recommendations over the past four years has been unsatisfactory. (Appendix D lists the recommendations and summarizes our assessment of progress). Recently, the government has been putting new efforts into evaluation.

20.85 But the Treasury Board Secretariat has not yet set out government-wide priorities for evaluation, as we recommended in 1996.

20.86 Although the first report of the Treasury Board President to Parliament (1995) did include evaluation and review, the focus of that annual report has changed. Parliament has not been informed since 1996 about the relatively weak state of evaluation in government, despite its clear interest in the subject.

20.87 The Secretariat has draft policies proposed for both internal audit and evaluation. The current version makes no reference to review as a separate activity, which may simplify measurement. The draft evaluation policy contains quality standards that, if promulgated, would satisfy our recommendation for evaluation standards.

Evaluation function has regressed

20.88 A need to rebuild the evaluation function. A recent study by the Secretariat shows that over the past four or five years, the evaluation function in the federal government has regressed. During most of this period, the Secretariat's attention to evaluation was limited. Key study findings include the following:

- Evaluations are still seen by some as a check on management rather than as a tool for management, but this attitude could be changing.
- There is room to develop managers' capacity to carry out evaluations of their programs for the purpose of organizational learning and improved implementation.
- Evaluation frameworks (or results-based management and accountability frameworks), although mandated by policy, have not always been created or, if created, not always implemented.
- Program Review led to a serious undermining of evaluation capacity across the government.

There is a clear need for concerted effort to rebuild the evaluation function.

There is a clear need for concerted effort to rebuild the evaluation function.

20.89 There are signs of progress in some areas. In line with our 1996 recommendations, the Treasury Board Secretariat is now identifying ways it can support the evaluation function. In its publication *Results for Canadians*, it made the following commitment:

> Working with departments and agencies, the [Secretariat] will develop and implement plans to better position and strengthen the program evaluation and audit functions within the broader effort to implement

modern comptrollership and results-based management across government.

20.90 Further, Treasury Board Guidelines for the Preparation of Departmental Performance Reports discuss the important role evaluation can play in reporting. In addition, the recently revised Policy on Transfer Payments requires that departments and third parties prepare a results-based management and accountability framework and conduct evaluations of their programs and projects.

20.91 Evaluation in departmental business planning. Two recommendations in our 1996 audit were addressed to deputy ministers: that business plans include evaluation findings and identify priorities for evaluation, and that plans for evaluation be developed as part of the business planning process. While departments are no longer required to submit business plans to the Treasury Board Secretariat, they are still expected to undertake business planning. The five departments we examined have made satisfactory progress in this area.

20.92 We looked at evaluation planning practices in our five case departments. Their practices varied; each produces different types of planning documents containing different types of information. Key business planning documents are developed at the business line level. These documents often set out strategies for measuring performance, including planned evaluations.

20.93 A review of departmental evaluation plans in the five departments revealed that all of them group evaluation activities by business line or by departmental objective. Environment Canada's evaluation plan articulates clearly how evaluations support managers' efforts to achieve planned results and how they help senior managers meet the Department's strategic objectives. All departments said they are continuing to work on integrating departmental priorities in their evaluation plans, and increasingly they see evaluation as an important component of the department's strategy for meeting its objectives.

20.94 Some recent management interest. In two of the departments, we heard that evaluation has remained stable over the past few years. In the three other departments, evaluation is only now showing signs of revival after a few difficult years: more staff are being hired, and the departments are developing strategies to strengthen the professional capacities of their audit and evaluation personnel. Increasingly, program managers are contacting the evaluation unit for help in developing evaluation frameworks (results-based management and accountability frameworks), as required in Treasury Board approval documents. Heads of evaluation in the five departments noted that program managers are also showing more interest in tools that will help them demonstrate results and support them in decision making.

20.95 One of the Secretariat's conclusions in its study of the evaluation function is that there is a need to renew the mandate of evaluation in the new management regime. This is clearly a task for the Treasury Board Secretariat to undertake.

20.96 The Treasury Board Secretariat should strengthen the evaluation function to ensure that it plays a key role in the government's move to managing for results. The Secretariat should also ensure that the evaluation function has the capacity to address strategic issues, including horizontal issues, that are of concern to government as a whole and to Parliament.

Conclusion

20.97 We set out to identify the extent to which managing for results was being practised in the five selected departments and 10 programs we examined. We found a few programs that use performance information routinely. We found that other elements of managing for results have shown some progress. They include initiatives to foster a supportive climate, extensive planning activities, and some measurement of performance. But a lot remains to be done before a strategy for managing for results is fully established in government.

20.98 Most departments need to move beyond planning to manage for results. They need to get on with measuring their progress toward at least some of their planned results, and using that information to improve performance. The persistent state of planning in most departments has meant that progress has been limited since we reported on this issue in 1997.

20.99 We appreciate the many challenges that departments encounter in their efforts to manage for results, and we recognize that this process takes time. In our audits and in our review of other jurisdictions that are managing for results, we identified many of these challenges — in particular, the challenge of fostering a climate in the organization that makes it the norm to systematically track a program's performance in order to learn what is working and what is not.

20.100 With sustained effort, departments can make strides toward managing for results. We found in some cases that a focus on results has filtered down to the day-to-day operations, despite impediments such as organizational change. Managing for results in these cases has become part of doing business.

20.101 As we reported in 1997, we found enough experience to draw from in Canada and elsewhere to establish a framework for managing for results. There is a particular need for departments in the federal government to:

- demonstrate senior management commitment and leadership;
- put in place levers to encourage a focus on results;
- agree on a planning, reporting and accountability framework, key results commitments and planned results;
- develop internal tools and capacity for measuring results;
- use information on results for decision making at all management levels; and
- report performance against stated expectations in a balanced manner.

20.102 The concept of managing for results is now accepted across government. However, there is little practical guidance on managing for results, and the sharing of experience is limited. Departments need more encouragement to move beyond merely planning to manage for results. Champions need to be identified. We found that the leadership and support provided by the Treasury Board Secretariat has been too dispersed to be of enough help to departments in managing for results.

20.103 Evaluation is not playing a large enough role in managing for results. Often, the only way to understand how programs are contributing to outcomes is through a systematic evaluation study. The federal evaluation function has been allowed to atrophy and to focus too often on operational issues rather than measuring how well departments are meeting their key results commitments.

We found some progress in managing for results but a lot remains to be done before managing for results is fully established in government.

Managing Horizontal Issues for Results: Finding Solutions to the Challenges

Introduction

20.104 In the first part of this chapter, we reported on the progress five departments have made toward managing for results, and the progress in 10 of their programs. We found growing attention to results and to particular elements of managing for results, including planning and performance measurement. We concluded that a lot remains to be done before the government is fully managing for results.

20.105 This part of the chapter looks at what the government is doing to support managing for results when several departments are involved in "horizontal" issues that cross departmental boundaries.

Growing Attention to the Management of Horizontal Issues

Issues that cut across departmental lines must be managed for results.

20.106 The commitments the federal government makes to Canadians are often targeted at broad issue areas. In recent Speeches from the Throne, for example, the government undertook to improve the well-being of rural Canadians, better integrate persons with disabilities into society, co-ordinate with other jurisdictions to address children's issues, and address broad environmental issues like climate change and ecosystems management. These are horizontal issues — they cut across departmental lines, and they reflect the government's broad vision for Canada.

20.107 When a policy issue spans departmental mandates, no one department has all the levers, resources and expertise to manage it adequately. Departments must work together toward an overall objective and adopt a common vision for success. They must effectively manage the resources dedicated to the horizontal issue and consider collectively how to fill gaps in service and eliminate duplication. They must be able to demonstrate accomplishments and learn from their present performance in order to make progress toward the expected results. And the issue may require them to work together with other levels of government, and with partners outside government. When they do all of this, they are managing the horizontal issue for results.

20.108 Alberta reports some horizontal results. Starting with the 1998 business planning cycle, the Government of Alberta Business Plan includes a section dedicated to key cross-government initiatives planned or under way in the three-year period covered by the Plan. In this way, Alberta recognizes that many of the pressures and challenges it faces need to be addressed corporately — they extend beyond the boundaries of single ministries. For the past two years, the Alberta Cabinet has singled out four cross-government or horizontal initiatives: two involving societal issues, and two in public administration. It has identified ministries to champion the initiatives, and given them the responsibility to manage and report on it.

20.109 Deputy Ministers' Task Force. The 1996 federal Deputy Ministers' Task Force looked at the need for interdepartmental collaboration in the management of horizontal issues, and the challenges this represents. Its report, *Managing Horizontal Policy Issues,* made practical recommendations for improving policy co-ordination within the federal government. It also addressed some of the procedural, structural and cultural implications of managing horizontal issues.

20.110 In particular, the Task Force pointed to the need for:

- an accountability framework to clarify the respective mandates and contributions of lead and partner departments;
- consultation with stakeholders on cross-cutting issues;
- realistic expectations for timing and outcomes, given the complexities of managing cross-cutting issues;
- adequate resources to allow the lead department to plan, co-ordinate and implement a horizontal initiative; and
- appropriate incentives and rewards for collaboration and teamwork.

20.111 In addition, the Task Force report discussed the importance of evaluation as a means of learning from experience in managing horizontal issues, and the importance of reporting and other forms of communication to share results and success factors across government.

Horizontal Issues Addressed in Our Previous Audits

20.112 The Office of the Auditor General and the Commissioner of the Environment and Sustainable Development have carried out a significant amount of work on the management of horizontal issues. Recent chapters that looked at various partnership arrangements recommended stronger frameworks for accountability and management, and more effort to monitor, evaluate and report results. (See Auditor General's 1999 Report, chapters 5, 6 and 23; and 2000 Report of the Commissioner of the Environment and Sustainable Development, chapters 2, 5, 6, 7 and 8.)

20.113 Particularly germane to this discussion is the Commissioner's 2000 Report, Chapter 6, Working Together in the Federal Government. In six case studies, the audit identified key factors affecting the success of sustainable development initiatives that span departmental boundaries. The Commissioner's key findings and success factors are shown in Exhibit 20.8. They are consistent with the literature on managing horizontal issues, with the work of the Deputy Ministers' Task Force, and with the findings of this study.

Focus of the study

20.114 The objective of our study was to identify the advantages of and impediments to using performance information and reporting in the management of horizontal issues. We selected case studies to explore how and to what extent horizontal issues are managed to achieve common results, based on the potential they offered for lessons learned. Most are long-standing horizontal issues, are clear government priorities, and have clear objectives.

20.115 The following are the cases we selected for study:

- Family Violence Initiative;
- Government of Canada Disability Agenda; and
- Canadian Rural Partnership.

Exhibit 20.8

Interdepartmental Co-operation – Key Findings and Success Factors

The Commissioner of the Environment and Sustainable Development found the following key problem areas:

- **unclear objectives;**
- **poorly defined responsibilities;**
- **unclear accountability;**
- **weak dispute resolution mechanisms, or none; and**
- **lack of senior management involvement.**

The following critical success factors were identified:

- **managing the impacts of participant turnover;**
- **ensuring that departments have proper incentives to collaborate;**
- **paying sufficient attention to the results of monitoring and evaluation exercises; and**
- **impartial secretariat and strong involvement of a central agency.**

Source: 2000 Report of the Commissioner of the Environment and Sustainable Development, Chapter 6: Working Together in the Federal Government

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Source: 2000 Report of the Commissioner of the Environment and Sustainable Development, Chapter 6: Working Together in the Federal Government

Appendix E provides background information on these cases.

20.116 We limited our study to collaboration among federal departments on clear government initiatives. We did not address the particular challenges of managing issues in collaboration with other jurisdictions. Other types of collaborative or delegated arrangements have already been the focus of audits in recent reports (in particular, the 1999 Report, chapters 5, 6 and 23). While several of the observations and findings in those chapters can be applied by federal departments in managing horizontal issues for results, here we will discuss in particular the challenge and complexity of co-ordination.

Observations and Recommendations

20.117 Based on our review of the relevant literature and our case study work, we developed a framework for managing horizontal issues (Appendix F). The framework focusses on co-ordination structures suited to achieving the government's objectives for an issue, and on elements critical to measuring and reporting results. The framework has five elements:

- identifying an effective co-ordination structure;
- agreeing on common objectives, results and strategies;
- measuring results to track performance;
- using information to improve performance; and
- effectively reporting performance.

A framework for managing horizontal issues focusses on co-ordination structures and on measuring and reporting results.

20.118 As the reader will observe, this framework is based on the managing for results framework presented in Exhibit 20.4 in the first part of this chapter.

Effective Co-ordinating Structures Are Needed

Many approaches to co-ordination

20.119 Horizontal issues can be co-ordinated in a number of different ways; how, and how closely, will depend on what the issue requires. For example, co-ordination can be informal, limited to simple communication and networking between managers in different departments. Efforts at co-ordination can also be more formal, if departments recognize a need to link their common objectives and work co-operatively.

20.120 Some circumstances do not warrant strong co-ordination. Many policies and programs require only communication among departments to ensure that their efforts are complementary. Close and structured co-ordination in those cases can overburden the participating departments and be counterproductive to the initiative.

20.121 Our three cases are examples of structured co-ordination, each to a different degree. In structured co-ordination, departments work more in concert toward shared objectives, have shared roles and responsibilities, agree on a decision-making process, and co-operate under a defined government strategy or in view of a long-term public policy objective.

20.122 Closer and more structured co-ordination is an advantage when, for example:

- the issue is a high priority of the government;
- the issue clearly spans the mandates of several departments;
- there is a potential for real gains by integrating policy development;
- strong champions or senior officials endorse the establishment of co-ordinating structures;

- the financial commitment is significant; or

- there is strong commitment and clear agreement among participants.

The lead department has a critical role of ensuring that objectives and obligations are met.

20.123 Identifying a lead department. If a department is designated to lead the management of a horizontal issue, it has the critical role of ensuring that the issue is managed in a way that will meet the partners' objectives and obligations; it ensures that partners are kept informed, that performance is monitored, and that partners live up to their commitments. It is important that the lead department be recognized as such by all participants and assigned the powers it needs to discharge its responsibilities.

20.124 Each of the horizontal initiatives we selected has a lead department. The rural issue was considered significant enough to warrant the creation in 1996 of the Rural Secretariat in Agriculture and Agri-Food Canada. As the lead, the Department has a mandate to ensure that departments and agencies work closely and effectively with politicians, government officials and rural citizens to address rural problems.

20.125 Dedicated units in Health Canada and Human Resources Development Canada have also been identified to co-ordinate, respectively, the Family Violence Initiative and the Federal Disability Agenda. In addition, the Federal Disability Agenda is supported by structures including a House of Commons Subcommittee on the Status of Persons with Disabilities, and a variety of management and working groups created to direct or implement the initiative.

20.126 The Family Violence Initiative, whose annual allocation of $7 million is shared by seven departments, is co-ordinated by a special unit of Health Canada and directed by an interdepartmental working group. It receives input from an evaluation working group and has accountability and reporting frameworks that define relationships among the partners. While it is well structured, we were informed that it receives little senior-level attention in the lead department.

20.127 Exhibit 20.9 shows the key elements of co-ordination, structure and accountability in each case. Appendix E provides background information on each of the three case studies, along with key features of their co-ordination structure.

Significant time and effort are needed to co-ordinate effectively.

20.128 Co-ordination takes time and effort. One of the issues raised consistently by all lead departments in our case studies was the time and effort it takes to co-ordinate effectively. For example, they must build consensus, persuade partner departments to adopt certain positions, ensure that decisions are carried out, communicate with stakeholder groups, and ensure that timelines are respected. Yet lead departments often have very little authority to back up their

Exhibit 20.9

Key Elements:
Co-ordination, Structure and Accountability

Key Elements	Family Violence Initiative	Federal Disability Agenda	Canadian Rural Partnership
Co-ordination, management structures	Co-ordinated and integrated	Co-ordinated and integrated	Co-ordinated and integrated
Senior leadership	Minimal	Strong	Strong
Accountability frameworks	Formal	Informal	None
Reporting frameworks	Formal	Being developed	Being developed

responsibilities. While formal agreements endorsed by senior officials in partner departments are valuable, they are not enough.

Where there is senior leadership, horizontal issues are more focussed, better resourced and more effective at meeting commitments.

20.129 Lead departments particularly singled out the time and effort needed for reporting. The lead department must, for example, ensure that data from many different sources are collected and collated; obtain partners' agreement on reporting requirements; and engage partners in ongoing discussions about the focus, content, format, and readership of the report.

20.130 Officials involved in the Canadian Rural Partnership and the Family Violence Initiative acknowledge that their first reporting experience was a challenge. In both cases, it took much longer than expected to negotiate the content of what was simply a report of activities, not results. Experience with these initial reports suggests that later, reporting on results will be an even greater challenge for management.

Partners indicated that having dedicated resources for management and co-ordination is helpful.

20.131 Our review of the literature and our discussions with departments participating in horizontal initiatives indicate that having dedicated resources is a big help in managing and co-ordinating. The Canadian Rural Partnership and the Family Violence Initiative benefited from Treasury Board funding earmarked for co-ordination. By comparison, the recent federal Budget did not include funds to co-ordinate the Federal Disability Agenda, requiring the Department to reallocate funds internally in 2000–2001 to allow the Office for Disability Issues to carry out this responsibility. Without resources, it is difficult for a lead department to meet the full slate of commitments identified at the start of an initiative. However, dedicating resources to co-ordination does not guarantee success; indeed, it needs to be complemented by senior management commitment and clear engagement of all partner departments.

Senior Support and Effective Tools for Issue Management

Senior leadership is key

20.132 Our case studies clearly demonstrate that support from senior levels of departments and clear political support are decisive factors in the successful management of horizontal issues. Senior officials who have a role in championing an issue work to ensure that all necessary support is available, including financial support. Horizontal issues that benefit from senior leadership are more focussed, better resourced, and more effective at meeting the government's commitments. The absence of such support from leaders leaves participants drained of energy and losing interest in the issue.

20.133 Leadership is needed in both the lead department and other participating departments. It is particularly important in cases that have no signed agreement among partners or a formal framework that clearly outlines the responsibilities of all parties. Even where such formal documents do exist, champions can do much to ensure that participants contribute to the initiative as expected and are held accountable for results.

20.134 There are many ways to show senior leadership. For example, senior departmental officials who champion the Canadian Rural Partnership ensured that resources were available for co-ordination, engaged senior officials of partner departments in contributing information for the first annual report, and maintained open lines of communication with the co-ordination unit so that they could be kept informed of progress in the initiative.

20.135 Leadership in the Federal Disability Agenda can be seen in the establishment of the House of Commons Subcommittee on the Status of Persons with Disabilities. A June 1999 report of the Subcommittee, *Reflecting Interdependence: Disability, Parliament,* *Government and the Community,* recommended that the government take real action to support persons with disabilities. It suggested, for example, that the government integrate a disability "lens" into all policy and program decisions, and that it report comprehensively on outcomes, results commitments and performance of federal activities in the area of disability. The Subcommittee's continued attention can keep the issue on the government's agenda for action.

20.136 Challenges in the absence of leadership. For some horizontal issues, the general absence of senior management leadership is difficult to overcome. Now in its third phase, the Family Violence Initiative has seen its funding from Treasury Board cut back significantly, with a corresponding decline of senior management attention to the initiative in many of the partner departments. The lead department has redirected funds for co-ordination obtained from the Treasury Board to other areas in the department, and has not provided the support needed for the initiative to keep up with its reporting schedule. The long history of ground-level co-operation and dedication of individual officers in the lead and the partner departments cannot make up for the absence of senior management leadership.

Formal frameworks are useful documents

20.137 Frameworks needed to set out common objectives. The more ambitious the objectives of the horizontal initiative, the greater is the need for clarity of partners' roles and responsibilities in managing, co-ordinating and reporting. Whether in a formal accountability framework document or a letter of agreement, all participants need to set out their understanding of the common objectives and state, in some detail, how and what they will contribute toward those objectives.

20.138 Such documents are particularly important when different partners give an issue different priority. In some cases, this occurs because some partner departments get Treasury Board funding for their part in horizontal programs and activities while others fund their part from their departmental budgets. The non-funded departments, for example, may resist having their internal activities subject to horizontal management. Moreover, non-funded departments do not have the formal obligations for reporting that are set out in Treasury Board funding agreements, and in a horizontal arrangement their reporting obligations are not clear.

When the objectives are ambitious, it is important to clarify the partners' roles and responsibilities.

20.139 Departments in our case studies noted the importance of having senior officials sign agreements so they are aware of the commitments their departments have made. While agreements among partners do not guarantee success, they are useful in clarifying accountabilities and expectations.

20.140 Among our case studies, only the Family Violence Initiative had developed formal accountability and reporting frameworks. During our study, partners in the Federal Disability Agenda and the Canadian Rural Partnership were developing detailed reporting frameworks but neither had a formal accountability framework. When an initiative requires more of departments than simple reporting of activities, or requires that partners alter programs to avoid duplication or to fill gaps, coming to an agreement on the roles and responsibilities of each will be important.

Finding effective levers and incentives

20.141 Levers and incentives are needed to support co-operation among partners and to overcome pressures on each to focus solely on its own vertical reporting and accounting requirements. A wider range of levers is available both to lead and to partner departments when there are

Levers and incentives are needed to support co-operation among partners.

formal structures and agreements. Departments can use communication, transparency, performance appraisals, rewarding teamwork and support for horizontal issues through, for example, promotion or recognition. By working in tandem with central agencies, departments can make more effective use of the visibility given to a horizontal issue, the resources allocated and various human resource management tools.

20.142 However, departmental officials we interviewed for our case studies noted the apparent lack of levers and incentives they could use to promote good management of horizontal issues. Central agencies have a role to play in developing and promoting such tools, if managing horizontal issues is a government priority.

Challenges in Reporting

20.143 Limited evidence of reporting or use of performance information. Canadians and parliamentarians want information on the overall accomplishments of these horizontal initiatives, collective information that reports on more than the individual activities of the departments involved in an initiative.

Reports need to focus on overall accomplishments of horizontal initiatives rather than individual activities of departments involved.

20.144 Our cases have not yet reported collective results. At the time of our study, two had produced reports, but both were reports on the activities of individual partner departments. Departments involved in horizontal initiatives note that developing and using common performance measures is a challenging task, and reporting on collective performance cannot be expected in the first years of an initiative. Reporting on results requires adequate planning, and departments involved in our case initiatives are working now to produce reports on results in the future.

20.145 Conflicting priorities. We found that to a large extent, the challenge in reporting on collective outcomes lies in the tensions between vertical accountability structures in departments and horizontal commitments and co-ordination. Current reporting tools and processes — like reports on plans and priorities, departmental performance reports, and internal reporting documents such as business or strategic plans — are designed to collect information on the performance of departmental programs and services. They are used to support the department's ability to demonstrate its accomplishments. If one partner department in an initiative produces information that is incompatible with what other partners produce, or if it would require significant resources to collect performance information as a special activity, then gathering the data and producing a report on collective results will likely be problematic.

20.146 Another difficulty is getting partners to agree on appropriate and measurable indicators of performance. In some cases, it requires that partner departments overcome their resistance to detailed management frameworks and outline specific indicators, measures, and responsibilities for data collection and the collation of performance data. Of our cases, only the Family Violence Initiative has developed a reporting framework that outlines roles and responsibilities in the collection of data for measures that all partners have agreed to. And yet it has not measured performance as planned and, at the time this study was conducted, it had submitted only one annual report to the Treasury Board Secretariat, for 1997-98.

20.147 A need to plan for reporting. In collective reporting, it is important to ensure that plans and expectations for reporting, and specifically the roles and responsibilities this entails, are commensurate with the powers and resources of the partners and the level of funding for the initiative. Reporting plans need to consider that some departments must collect information from parties outside the federal government: many horizontal initiatives involve societal

M121

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issues that fall under other jurisdictions or require the participation of parties outside the public sector.

20.148 Costs not known. In Chapter 19 of this Report, we noted that information on the cost of achieving results was generally not available in departments. In horizontal issues, the challenge of obtaining cost information is exacerbated by the number of departments involved and the different funding arrangements in place. A particular difficulty is knowing what part of the budget of non-funded programs contributes to the results expected in the horizontal initiative. For example, a prenatal nutrition program meets the needs of Canadians generally and, at the same time, those of segments of the population (such as rural Canadians and children). The costs of programs delivered to rural Canadians, particularly the costs that do not specifically target them, are hard to determine. Knowing (and managing) the costs of achieving horizontal results is difficult, but not impossible. Only in the Family Violence Initiative was there any information on the program dollars involved in the horizontal issue.

Lessons Must Be Learned and Shared

20.149 Insufficient use of lessons. Our cases suggest that more effort could be made to use lessons from previous generations of an initiative. While partners may refer to results of past evaluations of the initiative, this information is not used routinely. In one initiative we examined, the turnover rate and the state of the collective memory were such that a new participant was unaware for some time that the initiative had existed for several years.

20.150 Lead departments in the cases we examined are taking some positive steps to learn from each other's experience. For example, the Office for Disability Issues recently invited the lead department for the Canadian Rural Partnership to share its lessons learned in reporting on a horizontal issue. The need to learn from past experience and the experience of others is also clear in other horizontal initiatives, including federal government commitments to green its operations, elements of which were recently audited by the Commissioner of the Environment and Sustainable Development. That case is described in Exhibit 20.10.

Exhibit 20.10

Applying Lessons in Co-ordinating Greening Government Operations

Chapter 2 of the 2000 Report of the Commissioner of the Environment and Sustainable Development assessed departmental progress in implementing environmental performance measurement for government operations. The Commissioner reported that at the time the audit was conducted, there was fragmented leadership with no organization given the responsibility, or seeing itself as the lead, for establishing a consistent consolidated and coherent federal approach to reporting on the greening of government operations.

In its response, the Privy Council Office agreed with the recommendation that an action plan and an accountability framework be developed as a way to achieve more uniform reporting of progress. It indicated that steps would be taken to ensure that appropriate departments play a leadership role.

In early 2000, assistant deputy ministers in three departments agreed to act as co-champions to co-ordinate sustainable development in government operations, namely Natural Resources Canada, Environment Canada and Public Works and Government Services Canada. Since then, the co-champions have developed a strategy to facilitate a co-ordinated approach to the sustainability of federal operations. They are working at the interdepartmental level to implement the use of common performance measures and to identify opportunities and impediments to achieving progress in the greening of collective operations. They have recognized that developing a federal approach is a challenge that requires balancing competing priorities, measuring performance and reporting to provide a government-wide perspective, and maximizing interdepartmental co-ordination of efforts to achieve results.

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Some challenges and solutions identified

20.151 Exhibit 20.11 summarizes some of the main challenges and solutions we identified in our review of the literature and in our case studies, organized according to the broad headings in our framework for managing horizontal issues (see Appendix F). While this is by no means a listing of all the challenges encountered by lead and partner departments, it does suggest what managing horizontal issues for results can entail.

A Stronger Role for Treasury Board Secretariat

The role of the Treasury Board Secretariat needs to be better defined

20.152 Horizontal issues are an important area that requires concerted, strategic attention by the Treasury Board Secretariat. The Secretariat has been

Exhibit 20.11

Managing Horizontal Issues for Results: Challenges and Suggested Solutions

1. **Identifying an effective co-ordination structure**
   - **Partners may start out with differing commitments and priorities.** Commitments, and shared understanding of roles and responsibilities, can be set out in an accountability framework.
   - **Co-ordination takes time.** Resource requirements, time and effort needed for co-ordination can be built into initiatives from the start to reflect the challenges or complexities involved.
   - **Using effective levers and incentives.** Levers can include visible support, funding, administrative instruments and human resource tools (such as recognition and mobility).
2. **Agreeing on common objectives, results and strategies**
   - **Shared objectives but departmental accountability.** A balance is needed in the context of decentralized accountabilities through a detailed management framework.
   - **Territorial protection versus co-operation.** A champion can motivate participating departments to focus on horizontal results rather than their own separate interests.
   - **Balancing objectives and resources.** Early discussions between the partners and with the Treasury Board Secretariat can ensure that objectives are commensurate with resources available or provided, and with the political reality.
3. **Measuring results to track performance**
   - **Challenges when partnering funded with non-funded departments.** It is helpful if commitments by all partners to measure and report on performance are clarified up front in a framework agreement, and supported by senior-level leadership.
   - **Vertical and horizontal information needs.** Early discussions between the partners and within participating departments can ensure that both vertical and horizontal reporting requirements are addressed.
   - **Attribution preoccupies participants in horizontal initiatives.** Evaluation subcommittees have a role to play in establishing results-based management and accountability frameworks, explaining how the contributions of various partners can be accounted for and developing approaches to measurement.
   - **Reporting requirements need to be reasonable.** Partner departments and the Treasury Board Secretariat can work together to ensure that reporting requirements are balanced with resources and objectives.
4. **Using information to improve performance**
   - **Data from too many sources are hard to collate.** It is sometimes best to start by measuring a small number of indicators focussed on high-level results, and build from there.
   - **Limited use of lessons, evaluations and monitoring.** Responsibilities for using performance information in planning and implementation must be clearly outlined.
5. **Effectively reporting performance**
   - **Negotiating the reporting framework takes time.** Agreement on reporting poses a challenge in a time-limited initiative. Central agencies can ensure that timeframes are considered and can help partners reach consensus.

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proactive in identifying programs that could be managed horizontally. It has made presentations and developed draft guidelines on reporting and accountability frameworks for managing horizontal issues, and on its Web site it has shared information on collective and societal results and indicators. The Secretariat has also supported individual initiatives. Lead departments in horizontal initiatives have indicated that they value its contribution.

20.153 The Treasury Board Secretariat requires that submissions for funding of horizontal initiatives contain a commitment to performance reporting and evaluation. However, not all horizontal initiatives receive funding through the submission process. And, as already noted, not all departments receive funding for their part of the horizontal initiative. For those that do not, there are no central requirements to report collectively or to participate in collective evaluations. It is important for the Secretariat to ensure that horizontal issues are managed and co-ordinated adequately and resourced in a way that facilitates evaluation and full reporting when funded and non-funded departments are partners in a horizontal initiative.

Horizontal issues require concerted, strategic attention by the Treasury Board Secretariat.

20.154 We have observed that the role played by the Treasury Board Secretariat in the management of horizontal (interdepartmental) issues is piecemeal and differs from one initiative to the next, apparently independent of the characteristics of the initiative. The Treasury Board Secretariat does not have a strategic approach for dealing with the fact that a growing number of issues are addressed horizontally.

20.155 In view of the many challenges to horizontal initiatives that we have discussed in this chapter, we support the recommendations in the Deputy Ministers' Task Force report, *Managing Horizontal Policy Issues*, and in several reports of the Commissioner for the Environment and Sustainable Development. These include recommendations that central agencies:

- clarify expected outcomes and accountabilities of the partners involved, and
- provide advice on the co-ordination and management of horizontal issues.

20.156 We also agree with the Commissioner's recommendation that the Treasury Board Secretariat prepare a "best practices" guide for interdepartmental co-ordination, with input from those who have worked on horizontal issues.

20.157 Stronger central leadership is needed if the government wants to continue to promote horizontal issues as a priority and to focus increasingly on horizontal policy development, implementation and accountability.

20.158 The Treasury Board Secretariat should play a stronger leadership role to ensure that where appropriate, horizontal issues are managed for results. This includes ensuring that resources are available for the co-ordination and management of horizontal issues that are government priorities, and ensuring that external reporting takes place.

20.159 The Treasury Board Secretariat should play a stronger role in communicating good practices and lessons learned in managing horizontal issues for results.

Conclusion

Government is still at the start of its move toward reporting and using performance information in managing horizontal issues for results.

20.160 Our case studies indicate that there are many challenges in managing horizontal issues for results. Partners in horizontal initiatives can co-ordinate sufficiently to identify collective objectives, to share information, to develop frameworks for accountability and to report on activities. However, it is more difficult for them to manage tasks that require them to compromise or realign their own programs. Managing for results is difficult without sufficient resources; funds and human resources are needed to co-ordinate the efforts of partners and to implement reporting frameworks that can show Canadians and parliamentarians what has been accomplished by a horizontal initiative.

20.161 Government is still at the start of its move toward reporting and using performance information in managing horizontal issues for results. The Treasury Board Secretariat in particular has a role to play in supporting the effective use of levers and incentives by departments involved in horizontal initiatives, and in creating the conditions that favour more effective management of horizontal issues.

Government's response: *While agreeing with the emphasis the government has placed on managing for results, the Auditor General concludes that the fundamental shift in perspective from process-oriented or results-oriented management has not yet occurred generally across the public service. The chapter highlights the need to strengthen measurement of results, in particular the evaluation function. In addition, the audit notes the particular challenges in managing horizontal issues and recommends a stronger role for the Treasury Board Secretariat in supporting departments in this regard.*

With the tabling of Results for Canadians: A Management Framework for the Government of Canada *in Parliament in March 2000, the government now has a framework to move forward in this area. As the government implements this framework, departments and agencies will need to improve their measurement of results and costs and use this information to deliver better results for Canadians. To ensure that these expected improvements take place, the Treasury Board Secretariat continues to monitor implementation and upgrade its plans to exercise appropriate leadership and support to departments and agencies in this endeavour. It also has made internal managerial changes to promote the effective implementation of this management framework.*

The government recognizes that managing horizontal issues, including those involving other jurisdictions, is a challenge for departments. The Treasury Board Secretariat will continue to actively track major collaborative initiatives and ensure that lessons-learned are shared. It is also examining how to exercise the best possible leadership and support in responding to these new challenges.

About the Audit

Objectives

The objectives were to:

- examine the extent to which selected departments were managing for results, including their use of information on performance to manage programs;
- identify lessons learned in implementing managing for results;
- assess the leadership the Treasury Board Secretariat has provided to support managing for results throughout government; and
- in selected cases, to identify the advantages of and impediments to the use of performance information and reporting in the management of horizontal issues.

Scope

We examined five large departments — Agriculture and Agri-Food Canada, Correctional Service Canada, Environment Canada, Industry Canada, and Natural Resources Canada. In each department, we asked senior officials and/or corporate staff to help identify areas where the use of performance information could be expected. We selected and then examined a total of 10 programs/business lines to determine to what extent performance information is actually used and to what extent other elements of managing for results are in place. We also asked the departments to identify the lessons they learned in implementing their regimes for managing for results.

In addition, we followed up on the findings and recommendations of our 1996 Report, Chapter 3, Federal Program Evaluation. We examined the same departments selected for examination in our current audit. We looked at how these departments are planning for evaluations and using the information they provide on performance to manage for results.

For our study discussed in the second part of this chapter, we used three cases to explore good practices in managing horizontal issues for results and reporting results. Our selection of the case studies was based on the potential they offered for lessons learned, given that they are long-standing horizontal initiatives, are clear government priorities, and have clear objectives.

Criteria

To assess use made in selected departments of information on performance to manage programs and reporting on them:

- *In selected departments*, we expected to see at the corporate (or department-wide) level appropriate use of information on performance to improve program operations and design, to update planned results and budgets, and to report program performance at the corporate level.

- *In selected programs/business lines*, we expected to see appropriate use of information on performance to improve program operations and design, and to update planned results. At a minimum, we expected to see elements of managing for results in the programs and business lines we examined. These elements include fostering an organizational climate that encourages managing for results; measuring performance; and planning a strategic framework that demonstrates agreement on areas of key results, performance measures, and performance expectations.

In assessing the leadership provided by the Treasury Board Secretariat to support managing for results throughout government, we expected to find that the Secretariat:

- provides appropriate and consistent direction, guidance and feedback to departments on their efforts at managing for results;
- gathers and disseminates best practices and lessons learned;
- uses departmental results and performance information; and
- encourages departments and agencies to institute managing for results in a reasonable time frame.

In examining the management of horizontal issues for results, we reviewed the applicability of the framework we had developed for managing for results and looked for lessons identified in our cases. As this component of our work was a study, we did not set out specific criteria against which the cases were assessed.

Approach

We interviewed senior managers in the five selected departments and in the Treasury Board Secretariat (TBS), visited several field operations, and gathered relevant documents. We reviewed the literature in other jurisdictions on managing for results.

In our examination of the leadership role played by the Treasury Board Secretariat, we interviewed TBS officials, examined relevant documents and interviewed departmental officials for their perceptions of the Secretariat's leadership.

In our study of managing for results in selected horizontal initiatives, we interviewed departmental participants, including officials in lead departments. We had discussions with officials of the Treasury Board Secretariat, collected relevant documentation, and reviewed literature on horizontal issue management.

Audit Team

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Appendix A
Background Descriptions of Programs Audited

Programs	Description	Planned Federal Funding 2000–01
Agriculture and Agri-Food Canada		
Prairie Farm Rehabilitation Administration	The Prairie Farm Rehabilitation Administration (PFRA) is a branch of Agriculture and Agri-Food Canada that operates exclusively in Western Canada. The PRFA was established in 1935 in response to widespread drought, farm abandonment, and land degradation. Its mandate is to work with Prairie people to build a viable agricultural industry and to support a sound rural economy, a healthy environment, and high quality of life. PFRA is responsible for initiatives directed at conserving and improving the management of soil, air, water, and biodiversity/habitat. In this capacity, a variety of PFRA activities directly correspond to the Department's objectives associated with resource care and rural growth.	$40.3 million 693 full-time-equivalent staff
Net Income Stabilization Account	As a fundamental part of Agriculture and Agri-Food Canada's farm safety net framework, the Net Income Stabilization Account (NISA) aims to help producers achieve long-term farm income stability. NISA is a voluntary program, co-ordinated between individual producers, the Government of Canada, and participating provinces to provide financial assistance for maintaining and strengthening Canada's agricultural industry. NISA allows individual producers to make annual deposits to their NISA accounts and receive matching contributions from the federal and provincial governments. In lower-income years, producers can make withdrawals from the funds they have accumulated.	$212,600 (federal contributions)
Correctional Service Canada		
Reintegration of Offenders	The Reintegration business line involves providing programs and services that promote the safe and effective reintegration of offenders. Its objective is to actively encourage and assist offenders in becoming law-abiding citizens. To achieve this, the Service has established a range of services and programs, both in institutions and community settings, including case management, education, substance abuse, living skills, family violence and employment, and providing offenders with culturally and gender-appropriate programming.	$452.6 million 4,487 full-time equivalents
Aboriginal Reintegration	Within the Reintegration business line, the Service has recently established an Aboriginal Reintegration Program in response to the expected result, "the significant increase in the safe, timely and successful reintegration of Aboriginal offenders." Activities include developing and implementing culturally appropriate programming, research, and data management for the Aboriginal offender population.	Not available
Environment Canada		
Nature	In the Nature business line, the Department acts to conserve biological diversity in healthy ecosystems, and discharges federal responsibilities for managing wildlife, fresh water, and wetland resources. It also develops the science and technology policies and practices used throughout the Department. Long-term results associated with this business line are conservation of biological diversity; understanding and reduction of human impacts on the health of ecosystems; and conservation and restoration of priority ecosystems.	$165.5 million 928 full-time equivalents

Programs	Description	Planned Federal Funding 2000-01
Environment Canada		
Canadian Wildlife Service	The Canadian Wildlife Service (CWS), part of Environment Canada's Nature business line, handles wildlife matters that are the responsibility of the federal government. These include protection and management of migratory birds, nationally significant habitat and endangered species, as well as work on other wildlife issues of national and international importance. In addition, CWS does research in many fields of wildlife biology. Research on the socioeconomic importance of wildlife, pioneered by CWS, is now done by another part of Environment Canada.	Not available
Industry Canada		
Trade	The Trade strategic objective supports Industry Canada's view that increasing Canada's share of global trade will contribute significantly to the creation of a dynamic economy, enhanced productivity, employment, income growth, and Canada's overall prosperity. The Trade objective sets out to contribute to the achievement of four desired results: maintain and improve secure market access; establish a more co-ordinated and cohesive approach to international trade development; increase export capability and preparedness; and enhance international market development.	Not available
Connectedness	Through the Connectedness strategic objective, Industry Canada aims to make Canada the most connected country in the world. Program activities contribute to four key results: having Canadians connected to each other and to the world in a way that is affordable and accessible; creation of a world-leading environment for electronic commerce; maximizing of Canadian digital content and applications on-line; and availability of key federal government information and services on-line.	Not available
Natural Resources Canada		
Canada's Model Forest Program	Canada's Model Forest Program was established by the Department's Canadian Forest Service, which is the primary funder of the program and a partner in each of the 11 model forests in Canada. The program is committed to accelerating sustainable development in the practice of forestry. Through the model forests, different interests join together as partners to develop innovative approaches to sustainable forest management by combining their views, knowledge and expertise.	$96 million for 1997 to 2002 (Phase 2)
Aeronautical and Technical Services	The Aeronautical and Technical Services (ATS) unit within the Department's Earth Sciences Sector contributes to the result commitment, "the safety and security of Canadians." ATS aims to be Canada's leading supplier of aeronautical charts, to excel at fulfilling the Government of Canada's cartographic imaging and printing needs, and to quickly produce the maps needed in national emergencies. Its specific objective is to supply aeronautical charts and publications to meet the needs of the aviation industry and help ensure the safety and efficiency of aviation in Canada.	$3.3 million

Appendix B

Follow-up on Our 1997 Cases

Cases	Key Findings in 1997	Follow-up Findings
The North American Waterfowl Management Plan (Environment Canada) An international (U.S./Canada/Mexico) waterfowl and wetlands conservation program, implemented through joint ventures involving national and provincial/state governments, non-governmental organizations and the private sector.	• Results measured to improve performance. • Organizational strengths focussed on use of internal and external levers.	• Clear and measurable targets are established for waterfowl population and habitat. • Performance expectations for habitat conserved and results achieved are reported annually. • Management structure promotes communication and ensures commitment from all partners. • Updates, informed by evaluation studies, continue to keep the Plan responsive and relevant.
Investigation and Control (Human Resources Development Canada) Prevents, detects, and deters fraud and abuse of the employment insurance program.	• Supporting incentives for organizational climate established. • Key performance indicator used for performance measurement and program adjustment.	• Performance agreements include performance expectations and are used in the assessment of managerial performance. • Consistent measurement and reporting against the key performance indicator – total savings – identified in 1997. • Resources allocated based on the results achieved.
Canada Centre for Mineral and Energy Technology (Natural Resources Canada) Conducts and sponsors research for the economical, safe, and environmentally responsible recovery and use of mineral, metal, and energy resources.	• Organizational focus on outcomes. • Supporting incentives for organizational climate established.	• Significant improvements in business planning; three-year business plans incorporate a results chain. • Leadership to manage for results pushed down to program management level. • Performance agreements set performance expectations and are directly linked to business plans.
Travellers Program (Canada Customs and Revenue Agency) Processes and controls the entry of persons and their baggage into Canada through legal ports of entry.	• Key indicators used to improve program results. • Supporting incentives for organizational climate established.	• Stints – a performance measurement (sampling) system – are still being used to measure program performance. • Performance information is used to make program adjustments such as reallocation of staff among ports. • Performance agreements for senior managers specify program delivery targets.

Appendix C

Initiatives Supporting Managing for Results

Government Initiative	Implications for Managing for Results
Modernization of Comptrollership pilot project	Modernization of Comptrollership aims to integrate into a coherent whole, recent government management practices and priorities for change. The initiative is intended to produce performance information linked with relevant financial information for sound resource management and effective decision making to achieve results. Performance information will reflect business planning, risk management, costing, budgeting, evaluations, accounting, and non-financial and financial performance reports.
Treasury Board President's annual report to Parliament on *Managing for Results*	A description of the President's annual report to Parliament on *Managing for Results* is provided in Chapter 19. Treasury Board has used this document to insist on the importance of a focus on results, and sets out actions the government plans to take to promote capacity in departments, managing for results in horizontal issues, and improved reporting.
Improved Reporting to Parliament Project	The government launched the first phase of its Improved Reporting to Parliament Project (IRPP) in 1995. The intent of the project was to provide Parliament with better information on the federal government's plans and performance with a focus on results. On a pilot basis, and with the agreement of Parliament, Part III of the Main Estimates was split into two documents: the fall *Departmental Performance Reports* and the spring *Reports on Plans and Priorities*. The government is moving into the second phase of IRPP to enhance the involvement of parliamentarians in the reporting of performance information to Parliament.
Financial Information Strategy	The Financial Information Strategy (FIS) seeks to fundamentally change the way in which the government manages its financial information. The vision for FIS is to enhance the government's decision making and improve organizational performance through the strategic use of financial information. The Strategy was approved by Treasury Board in 1995, and is expected to be fully implemented by 1 April 2001.
Results for Canadians (March 2000)	The document sets out a framework for government management and an agenda for change that focusses on the achievement of results. Commitments are made to manage for results: all departments must be focussed on the achievement of results, and on reporting them in simple and understandable ways. The government will continue its movement toward a results-based approach that can distinguish program strengths and weaknesses, and provide guidance on what does and does not work.
Practical Guidelines to Preparing Treasury Board Submissions (May 2000)	This document provides practical advice on what to include in Treasury Board submissions. In support of managing for results, submissions are expected to outline outcomes, state how the initiative will be monitored and evaluated, include an performance and accountability framework, or a commitment to developing one at a later date. The framework reflects a full managing for results cycle, including performance measurement, reporting, and evaluation.

Appendix D

Status of Our 1996 Recommendations on Federal Evaluation

Recommendations	Comments
Treasury Board Secretariat should:	
Ensure that there is a clear statement of specific government evaluation priorities. It should monitor departmental business plans for gaps and omissions with respect to government priorities, and should take steps to deal with gaps and omissions (paragraph 3.74).	**Unsatisfactory progress.** The Secretariat has not stated the government's priorities for evaluation. It sets out evaluation requirements in selected areas.
Ensure that its report to Parliament credibly represents the performance of review and includes specific measures on [the state of] evaluation. The report should include the government's evaluation priorities and progress in addressing them (3.86).	**Recommendation rejected.** The President's annual report to Parliament does not report on the state of evaluation. It has evolved to a broader scope, focussing on reporting and managing for results.
Make clear the quality standards to be applied for different types of effectiveness measurement and analysis (3.106).	**Unsatisfactory progress.** The Secretariat has not set out quality standards for evaluation and review. A proposed new Treasury Board evaluation policy does set out standards, and clarifies evaluation and review.
Deputy heads should:	
Ensure that departmental business plans include evaluation findings and identify priorities for evaluation (3.64).	**Satisfactory progress*.** Departmental business plans are no longer required by the Secretariat, but planning exercises occur for business lines. Planning documents often include performance measurement strategies and reflect evaluation plans.
Ensure that plans for evaluation are developed as part of their business planning (3.96).	**Satisfactory progress*.** Plans for evaluation are organized by business line. Departments are working to further integrate departmental priorities in their evaluation plans.

Key:

Fully addressed – The original audit finding has been fully addressed and no further action is needed. Our Office will not follow up further.

Satisfactory progress – Reasonable progress has been made in addressing the original finding, but some additional action is required. Our Office will do further follow-up work.

Unsatisfactory progress – Reasonable progress has not been made in addressing the original finding and considerable further action is required. Our Office will do further follow-up work.

* Based on an examination of the five departments.

Source: Report of the Auditor General of Canada, Chapter 3, Evaluation in the Federal Government, 1996

Appendix E

Horizontal Issues – Three Case Studies

Features	Family Violence Initiative	Federal Disability Agenda	Canadian Rural Partnership
Lead department	Health Canada	Human Resources Development Canada	Agriculture and Agri-Food Canada
Start and end dates	1997-98 to 2001-02 The initiative is now in its third phase.	1999-2000 (no end date) This is the second formal initiative, following the National Strategy for the Integration of Persons with Disabilities.	1998-99 to 2002-03 A Secretary of State (Rural Development) was appointed in 1999.
Number of participants	12	23	29
Federal contribution	$35 million over five years for seven departments. Five other departments address family violence issues through their existing programs and activities.	Some elements of the Federal Disability Agenda receive support: $ 75 million a year Opportunities Fund and tax assistance (HRDC) $11.5 million over three years for the Health and Activity Limitation Survey (Statistics Canada). Other departments and agencies address disability issues through their existing programs and activities.	$20 million over four years for the Canadian Rural Partnership, which includes co-ordination activities and a grants and contributions program. Other departments and agencies address rural issues through their existing programs and activities.
Co-ordination mechanism	Family Violence Prevention Unit	Office for Disability Issues	Rural Secretariat
Agreements and framework documents	Accountability framework Reporting framework (both are Treasury Board requirements) Three-Year Strategic Plan	Accountability framework (informal). Reporting framework (being developed).	Interdepartmental strategic action plan (being developed). Interdepartmental performance measurement framework (being developed).
Structures used for co-ordination	Interdepartmental Working Group Evaluation Working Group	House of Commons Subcommittee on the Status of Persons with Disabilities. Assistant Deputy Ministers' steering committee. Interdepartmental working group. Various working groups (evaluation, Aboriginal issues).	Interdepartmental working group. Rural teams in all provinces and territories.

Appendix F

Framework for Managing Horizontal Issues

Effectively managing a horizontal issue involving a number of departments to achieve specific results requires the following:

1. **Identifying an effective co-ordination structure**

   Effective co-ordination is essential to managing horizontal issues and requires:

   - **Establishing roles and responsibilities.** Agree on the roles and responsibilities of departments involved and who will take the lead.
   - **Developing an appropriate level of co-ordination.** Define in a framework document the management and governance structure, and put in place the co-ordination structure as appropriate
   - **Promoting co-ordination through levers and incentives.** Structures and frameworks are not enough. A range of levers and incentives should be available, including visible political support, funding, and human resource tools.

2. **Agreeing on common objectives, results and strategies**

   Reasonable agreement is needed among the participants on the overall objectives, what more specifically will be accomplished over what time frame, and what and how departments will contribute. This involves:

   - **Defining common objectives.** Determine the objectives that will guide departmental actions and provide a basis for a common vision of success.
   - **Agreeing on performance expectations for the initiative.** Agree on specific results and a set of performance expectations for the horizontal issue that are realistic and challenging, taking into consideration the priority of the issue area and the co-ordination structure in place.
   - **Defining performance indicators for the initiative.** Agree on a manageable set of qualitative or quantitative performance indicators. These indicators should be relevant for each department as well as for collective action.
   - **Agreeing on how departments will contribute.** Articulate strategies and performance expectations for departments that are commensurate with the resources available and with political/jurisdictional reality.

3. **Measuring results to track performance**

   Managing the horizontal issue for results requires:

   - **Measuring performance.** Practices exist for departments involved to collect, assess and report on performance and costs, using the indicators identified and agreed on.
   - **Evaluating programs.** Practices exist for evaluating the relevant components of the horizontal initiative in the different organizations.
   - **Reviewing and updating indicators and measures.** Based on experience gained, changing circumstances, and experience gained in other horizontal issues, make periodic changes and improvements to indicators, expectations and measurement approaches.

4. **Using information to improve performance**

   Realizing the benefits of managing for results requires:

   - **Using performance information.** The performance information gathered and assessed is used to improve management of, and performance in, the horizontal issue, such as adjusting the co-ordination mechanism or the activities undertaken.
   - **Identifying good practices.** Based on what works and what does not, identify and use lessons and good practices to improve performance.

5. **Effectively reporting performance**

   Reporting among the departments involved and to other stakeholders requires:

   - **Defining a reporting regime.** Define a reporting regime and a communication strategy that reflect the level of priority given to the horizontal issue, and its size, including the resources it has available. The regime and strategy should also meet departmental, horizontal and stakeholder information needs.
   - **Describing the context and strategies used.** State clearly in reporting documents the rationale and objectives of the collective effort, its major strategies, and its related external context.

- **Stating meaningful performance expectations.** Clear and concrete key performance expectations focussed on outcomes.
- **Reporting performance accomplishments against expectations.** Key accomplishments are related to expectations and attributable to individual or collective efforts.
- **Demonstrating the capacity to learn and adapt.** The report demonstrates the ability of the collective effort to learn from past performance and adapt to external changes.
- **Reporting on the fairness and reliability of the performance information.** Report performance information that is fair and reliable.

Report of the
Auditor General of Canada to the House of Commons – 2000
Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6
5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter

15 Health Canada – First Nations Health: Follow-up

Other Observations

16 Follow-up of Recommendations in Previous Reports
17 Other Audit Observations

Volume 3 – December 2000

Chapter

Matters of Special Importance – 2000
Foreword and Main Points

18 Governance of Crown Corporations

19 Reporting Performance to Parliament: Progress Too Slow

20 Managing Departments for Results and Managing Horizontal Issues for Results

21 Post-Secondary Recruitment Program of the Federal Public Service

22 Development of the Universal Classification Standard: A Follow-up

23 Information Technology: Acquisition of Goods and Services

Protecting Health and Safety

24 Federal Health and Safety Regulatory Programs
25 Canadian Food Inspection Agency – Food Inspection Programs
26 Health Canada – Regulatory Regime of Biologics
27 Canadian Nuclear Safety Commission – Power Reactor Regulation
28 Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

29 Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

30 Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

31 Fisheries and Oceans – Fleet Management

32 National Defence – Defence Support Productivity: A Progress Report

Other Observations and Appendices

33 Follow-up of Recommendations in Previous Reports
34 Other Audit Observations

35 Sustainable Development Strategy for the Office of the Auditor General

Report of the
Auditor General of Canada
to the House of Commons

Chapter 21
Post-Secondary Recruitment Program of the Federal Public Service

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

© Minister of Public Works and Government Services Canada 2000
Cat. No. FA1-2000/3-21E
ISBN 0-662-29584-6
Copies françaises aussi disponibles

Chapter 21

Post-Secondary Recruitment Program of the Federal Public Service

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 21-5

Introduction 21-7

Entering the federal public service 21-7
An aging public service work force 21-8
Focus of the audit 21-9

Observations and Recommendations 21-10

Lack of Corporate Direction Hampers Recruitment Planning 21-10

Planning Under the Post-Secondary Recruitment Program Is Ad Hoc 21-12

There Is a Trend to Hiring on a Term Basis 21-14

The Public Service Commission Needs to Be a Better Recruiter 21-15
Promoting the federal public service to university graduates could be improved 21-15
Government visibility on campuses could be better co-ordinated 21-16
The scheduling of the program's campaigns raises problems 21-16
The program does not offer opportunities across the country 21-17

Greater Use Could Be Made of the Program's Campaigns Results 21-18
Inventory of qualified candidates would maximize results 21-18
Few departments use the program 21-18

Assessment and Reporting of the Program's Results Are Limited 21-19
Assessment of the program's recruitment activities is weak 21-19
Reporting of results needs major improvement 21-21
The work of the Committee of Senior Officials on Recruitment is not complete 21-22

Conclusion 21-22

About the Audit 21-26

Exhibits

21.1 Recruitment in the Federal Public Service 21-7
21.2 Retirement Eligibility of Executive, Primary and Secondary Feeder Groups 21-9
21.3 Key Components of Statistics Canada's Recruitment Practices 21-13
21.4 Types of Appointments to the Public Service 21-14
21.5 Recruitment Practices of Private and Para-Public Organizations 21-17
21.6 Examples of Feedback on Recruitment in Some Private Sector Organizations 21-19

Appendices

A. List of Occupational Groups for the Scientific and Professional, and Administrative and Foreign Service Categories 21-28
B. Summary of the Report of COSO's Subcommittee on Recruitment, July 2000 21-29

Post-Secondary Recruitment Program of the Federal Public Service

Main Points

21.1 Our review of the Post-Secondary Recruitment program in the federal public service found that the Public Service Commission of Canada is recruiting qualified candidates. But there are too few of them given the significant number of public service executives, professionals and managers who will be eligible to retire in the near future. The government has to immediately address the recruitment issue so that it can continue to deliver programs and provide services of quality to Canadians.

21.2 We found weaknesses in the program's efficiency and effectiveness in the following areas:

- Forecasting of recruitment needs is not clearly spelled out. Without a clear idea of the number and type of employees needed, it is difficult to establish clear recruitment levels and develop appropriate recruitment strategies.
- The recruitment levels under the program have not been met consistently.
- In light of the increased competition for university graduates, the Commission needs to be a more aggressive recruiter of graduates. There has to be better promotion of the public service as a career choice, increased visibility on campus and improvement in scheduling and timeliness of recruitment.
- Very few departments participate in the program, which limits its capacity to renew the public service.
- The Commission does not establish and manage inventories of qualified candidates for departments.
- The program and its activities have not been evaluated consistently and systematically to improve their effectiveness and efficiency. As a result, it makes it difficult for the government to take appropriate corrective action on recruitment.
- Reporting of results is not adequate.

21.3 We are concerned about the government's ability to address the recruitment challenge.

Background and other observations

21.4 The public service has become significantly older. Seventy percent of executives could retire by 2008, and the feeder groups, the people who could eventually replace them, have a similar retirement profile. Public servants under 35 years of age are underrepresented.

21.5 For existing senior executives, it took an average of 10 years for them to move from a professional entry level to an executive level. Recruitment has, therefore, become imperative to ensure a well-functioning public service in the future.

21.6 The public service has changed and requires a higher proportion of knowledge workers than in the past. Today, these workers constitute 55 percent of public servants.

21.7 Recruitment has been an issue in the public service for at least 10 years. Many reports, and more recently the 1999 Speech from the Throne, have reported the need to recruit for the public service because of demographics and other factors, such as increased competition for qualified candidates.

21.8 It is recognized that an effective and non-partisan public service is essential to the strong functioning of a democratic country. To remain a vibrant institution, the public service must be able to recruit and retain well-qualified employees.

21.9 The government recognizes that recruitment in the public service is a priority. In his March 2000 annual report, the Clerk of the Privy Council stated the following: "We need to start recruiting people now so that we have the time to groom and nurture skills and so new recruits will have time to benefit from the depth of experience and knowledge of public servants across the country."

21.10 We are concerned about the government's ability to address the urgent challenge of recruitment for the years ahead.

The responses of the Treasury Board Secretariat, on behalf of the government and the departments audited, and of the Public Service Commission are included at the end of this chapter. The responses recognize the importance of recruitment and indicate plans to address the issues identified.

Introduction

Entering the federal public service

21.11 Staffing in the federal public service, which includes initial appointments as well as promotions, is administered by the Public Service Commission of Canada under the *Public Service Employment Act*. The Act covers 20 departments and some 60 agencies, which form the core public service.

21.12 To hire new people in the public service, departments and agencies must have vacant positions and have allocated funds for these positions. Initial hiring into the public service can be done in a variety of ways. The majority of external hiring is done through individual competitions to fill vacant positions, as required. This practice is known as "general recruitment" (see Exhibit 21.1). It is not a structured program but a series of specific departmental staffing actions.

21.13 The Post-Secondary Recruitment program is a structured program. It is the government's main recruitment vehicle for a wide variety of entry-level positions in the Administrative and Foreign Service, and Scientific and Professional categories. (See the list of occupational groups in these categories in Appendix A.)

The Post-Secondary Recruitment program is a structured program. It is the government's main recruitment vehicle for a wide variety of entry-level positions.

21.14 The public service has traditionally hired at the entry level and promoted from within. Indeed, section 11 of the Act states that "appointments shall be made from within the Public Service except where, in the opinion of the

Exhibit 21.1

Recruitment in the Federal Public Service

General recruitment	Components of the Post-Secondary Recruitment program		
Individual competitions for vacant positions in departments and agencies for all categories, occupational groups and levels	• Specific entry-level positions for departments and agencies	• Entry-level positions for departmental development programs: • Foreign Service Officer Development program for the Department of Foreign Affairs and International Trade • Economics Recruitment and Development program for Statistics Canada	• Entry-level positions for corporate development programs: • Management Trainee Program (MTP), managed by the Public Service Commission • Accelerated Economist Trainee Program (AETP), managed by the Commission • Financial Officer Recruitment and Development program (FORD), managed by the Treasury Board Secretariat
Candidates can apply during the posting period, which varies between 10 and 15 working days. Positions are posted through the Public Service Commission's Web site.	Students can apply during the campaigns of Post-Secondary Recruitment program. The fall campaign usually runs for four weeks in September and October. The winter campaign usually runs for four weeks in January. The application period for some corporate development programs may run a little longer.		

Source: Public Service Commission of Canada

Commission, it is not in the best interests of the Public Service to do so."

21.15 The positions in the Scientific and Professional category require a university degree, as do almost half of those in the Administrative and Foreign Service category. Managers and executives are usually selected from all these categories, which, including the Executive Group, comprise what are often referred to as "knowledge workers."

21.16 Because the nature of the public service's work has shifted, these categories make up an increasingly larger proportion of the public service's work force. Today, they represent about 55 percent of the work force, up from about one third in the mid-1980s. Therefore, replenishing these categories is critical to a well-functioning public service.

21.17 The Public Service Commission manages the Post-Secondary Recruitment program, which has three components: recruitment for specific jobs in departments and agencies, recruitment for departmental development programs, and recruitment for three corporate development programs (see Exhibit 21.1). The specific jobs in departments include economists and policy analysts, nurses, commerce officers, and information technology specialists. Departmental development programs include the Foreign Service Development Program at the Department of Foreign Affairs and International Trade, and the Economists Recruitment and Development program at Statistics Canada. The corporate development programs comprise the Management Trainee Program (MTP), the Accelerated Economist Training Program (AETP) and the Financial Officer Recruitment and Development (FORD) program. They are designed to move candidates through to middle management or professional levels quickly.

An aging public service work force

21.18 The public service has become significantly older over the past eight years. This characteristic is particularly more pronounced in the Executive, Administrative and Foreign Service, and Scientific and Professional categories, where some 45 percent of the work force is aged over 45. In contrast, only 18 percent of public servants in these categories are under 35. Part of the reason for these figures is that during Program Review, many experienced employees as well as younger ones left under a departure incentive program, and hiring was extremely limited.

21.19 The Treasury Board Secretariat expects the annual separation rates of the Executive category to increase from six percent in 1999-2000 to almost 10 percent after 2002-03. In April 2000 we reported that 70 percent of executives could retire without any penalty by 2008. To be eligible for retirement without a penalty, an employee must be aged 55 and have 30 years of pensionable service, or be aged 60 with a minimum of two years of pensionable service.

21.20 Data show that the "feeder groups" (the traditional pool of candidates for executive positions) are also older than the average age of the public service. As well, this pool will see higher departure rates in the next decade, which will increase the difficulty of replacing many executives (see Exhibit 21.2). Data from the Treasury Board Secretariat's information system indicates the following:

- in the primary feeder group, which accounts for half of promotions to the Executive category, 48 percent of employees will be eligible to retire by 2008; and

- in the secondary feeder group, which accounts for almost one quarter of executive appointments, 53 percent of employees will be eligible to retire by 2008.

21.21 Our Office and other organizations continue to express concerns about the need to recruit knowledge workers and to improve recruitment practices. For instance, in 1998 we reported on the impact of staff shortages on the management of the International Tax Directorate. In 1999 we noted the need for more flexible recruitment practices for the science and technology community. This year we continue to examine ongoing staff shortages and their overall impact on service quality and program delivery in financial management (see our October 2000 Report, Chapter 13) and health and safety (see our December 2000 Report, Chapter 24).

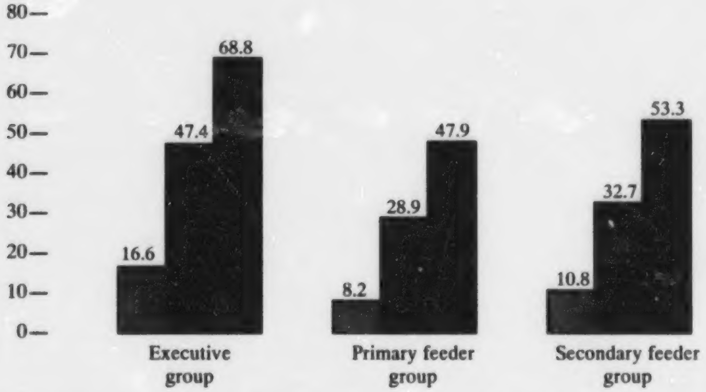
Focus of the audit

21.22 The purpose of our audit was to determine the extent to which the Post-Secondary Recruitment program would help the government renew its aging professional and management work force and to assess the effectiveness and efficiency of the program.

Exhibit 21.2

Retirement Eligibility of Executive, Primary and Secondary Feeder Groups

(percentage)



The primary and secondary feeder groups comprise senior classification levels in the Scientific and Professional, and Administrative and Foreign Service occupational categories (see table below).

Primary feeder group	Secondary feeder group
Scientific and Professional • Economics, Sociology and Statistics (ES 06, ES-07)	Scientific and Professional • Auditing (AU-05) • Engineering and Land Survey (ENENG-05, ENENG-06) • Physical Sciences (PC-04, PC-05) • Scientific Research (SEREM-02)
Administrative and Foreign Service • Administrative Services (AS-06, AS-07) • Foreign Service (FS-02) • Program Administration (PM-05, PM-06)	Administrative and Foreign Service • Commerce (CO-03, CO-04) • Computer Systems Administration (CS-04, CS-05) • Financial Administration (FI-03, FI-04) • Information Services (IS-06) • Personnel Administration (PE-05, PE-06) • Purchasing and Supply (PG-06)

Source: Treasury Board Incumbent File (excluding the Canada Customs Revenue Agency) – *Not audited*

We continue to find a clear lack of co-ordination and direction in dealing with the government's recruitment priority.

21.23 We looked at the program as the government's main structured program for recruiting university graduates in the Administrative and Foreign Service and Scientific and Professional categories. We examined how the Public Service Commission and the Treasury Board Secretariat manage recruitment from a central perspective. We also examined how the Department of Foreign Affairs and International Trade, Fisheries and Oceans, and Statistics Canada identified their human resource requirements and made use of the Post-Secondary Recruitment program.

21.24 We selected these departments based on the Public Service Commission's information, which ranked them as key users of the program in 1998-99.

21.25 We reviewed three main phases of the recruitment process: planning, the management of recruitment activities, and the assessment and reporting of results.

21.26 During our audit we interviewed senior human resource managers from various private and para-public organizations to learn about their recruitment practices. We also spoke to university placement officers to discuss their views on the Post-Secondary Recruitment program.

21.27 We present more details in **About the Audit** at the end of this chapter.

Observations and Recommendations

Lack of Corporate Direction Hampers Recruitment Planning

21.28 The 1998 Committee of Senior Officials' (COSO) subcommittee report on the human resource community called for a more strategic approach to human resources management. In 1998, La Relève noted the need for a human resource strategy for the public service to retain more employees and focus recruitment in areas of skill shortages.

21.29 We continue to find a clear lack of co-ordination and direction in dealing with the government's recruitment priority partly because of unclear roles and responsibilities.

21.30 Under the *Financial Administration Act*, the Treasury Board determines the size of the public service and ensures that human resources are allocated and used effectively. It aims to perform a strategic and results-oriented management role as the government's management board.

21.31 The Public Service Commission's mandate is to ensure that Canada has a highly competent, non-partisan public service that is representative of the population it serves. Over the years, the Commission has delegated much of its staffing responsibilities to departments and adopted an advisory and oversight role. However, the Commission has retained authority for initial appointments to the public service and responds to requests from departments for recruitment from outside the public service.

21.32 Departments are responsible for determining the resources they need for program delivery and obtaining funds and guidance from the Treasury Board Secretariat to address resource shortages. They must work with the Commission to recruit new staff.

21.33 We expected the Secretariat and the Commission, which have shared responsibilities for human resource management, to take lead roles on recruitment.

21.34 The Clerk of the Privy Council, as Head of the Public Service, established three priorities for human resource management in his Seventh Annual Report to the Prime Minister in March 2000: recruitment, workplace well-being, and learning and development. He established three subcommittees of

COSO to work on these priorities. In the spring of 2000 the Clerk asked all deputy ministers about their plans in these three critical areas for the short, medium, and long term, and what corporate support or help they needed.

21.35 The Clerk chaired the subcommittee on recruitment, which indicates the priority he placed on this area. The July 2000 subcommittee report outlined expected behaviours for all managers, highlighted some best practices for other departments to consider, and attached a general plan for central agencies. (Appendix B contains highlights of the report, which deals with the broad issue of recruitment, not just the Post-Secondary Recruitment program.)

21.36 In response to the Clerk about the three human resource priorities, most deputy ministers stated that they would be facing a significant recruitment challenge over the next five years. While they also expressed a general need for support from central agencies, we did not see any specific plans or requests for direction or additional resources. Some managers we interviewed mentioned that their department needed funding for interim positions and for training of new employees, yet this need does not seem to have been translated into specific planning demands.

21.37 We asked the Treasury Board Secretariat if it had summarized the deputy ministers' responses to the Clerk and assessed whether their plans were sufficient to meet the overall need for recruitment. The Secretariat had not done so because it was waiting for departments to submit individual business cases to address recruitment issues. It expects them to review the uses of resources, including the use of employees hired for a specific period and contractors before seeking additional resources for recruitment. The Secretariat needs to be more active in providing clearer direction to departments on dealing with the recruitment priority and challenging their plans accordingly.

21.38 Our review of the Secretariat's documents indicates that operational planning and forecasting capacity varied significantly from one organization to the next. According to the Treasury Board's recent estimates and projections, there is a need to increase recruitment levels substantially. However, these analyses do not break down the needed results by occupational groups. We did not find any evidence that the Board shared this information with the Commission (responsible for overall recruitment) or with departments (responsible for identifying their needs) to support the development of an overall recruitment strategy.

21.39 The Public Service Commission could play a more proactive role in managing its Post-Secondary Recruitment program, given the recruitment priority, and in taking action where departmental responses seem to be inadequate to meet the recruitment challenge.

Deputy ministers stated that they would be facing a significant recruitment challenge over the next five years.

21.40 In our view, the current situation indicates that a government recruitment strategy is needed to provide direction for departments and the Commission on how best to manage the recruitment priority. We believe that if central agencies keep waiting for departments to act and departments keep waiting for direction and support from the central agencies to act, the recruitment priority will not be managed in a strategic and proactive manner.

21.41 In our April 2000 Report, Chapter 9, Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities, we stated that unresolved structural and systemic issues were partly the root of these problems.

21.42 No one is clearly the driving force behind recruitment, and the government has not developed its strategic direction and goals for recruitment. For these reasons, we are concerned about the government's ability to address the recruitment priority.

Planning Under the Post-Secondary Recruitment Program Is Ad Hoc

We are concerned about the government's ability to address the recruitment priority.

21.43 We expected that recruitment levels for the Post-Secondary Recruitment program would be aligned with forecast vacancies according to retirement and attrition rates over five years. We also expected that based on established levels, recruitment strategies would be developed to reach and recruit the necessary candidates.

21.44 In reviewing some current profiles of senior managers, we learned that on average, it took them 10 years to move from their professional entry-level to an executive position. Given this fact and the objective of the Post-Secondary Recruitment program (to recruit for the short- and long-term needs of the public service), we found no analysis of the way the program will help to replace the many senior workers who will be eligible to retire in eight years or of its chance of success in doing so.

21.45 Recruitment levels of the program are based on ad hoc requests of a few departments. We found no evidence that the Public Service Commission or the Treasury Board Secretariat challenge the number of positions proposed by departments to address the recruitment priority.

For its part, Statistics Canada has formally made human resource planning a priority and recruited more employees to sustain its work force.

21.46 Annual recruitment levels of some corporate development programs have been set, but have not been met. For example, over the last four years, the MTP has hired between 27 and 71 candidates. For the same period, recruitment levels for the MTP were set at 80 and then 100 for the last two years. The AETP has not reached its annual recruitment level of 14 in the last four years. Though the FORD program does not have a set recruitment level, it has hired about 100 candidates annually. FORD officials say that the program has played a key role in renewing and rejuvenating the finance community. However, they recognize that more recruitment is needed because there is a growing need to implement a recruitment strategy for filling middle management positions in the financial community.

21.47 For its part, Statistics Canada has formally made human resource planning a priority and recruited more employees to sustain its work force. Exhibit 21.3 illustrates some key components of its recruitment practices. To meet its forecasts, Statistics Canada has recruited an average of 200 knowledge workers annually, using the Post-Secondary Recruitment program as the primary vehicle.

21.48 In 1998-99 Fisheries and Oceans undertook a special recruitment initiative to renew their science and technology community and aimed to create 86 new positions in areas where gaps were predicted. The Department identified the Post-Secondary Recruitment program as the key to hire these professionals and scientists. The Department intended to convert 17 term employees to indeterminate (or permanent) status and recruit up to 69 candidates through the program. In fact, it reduced the target to 81 new positions, converted the status of 53 of its term employees, staffed 22 positions with temporary or casual employees and hired only six candidates through the program.

21.49 In February 2000 Fisheries and Oceans stated in a letter to the Clerk that it would annually hire 100 more employees than its projected attrition rate. The department is not participating in this year's fall campaign of the program and is still developing recruitment strategies and plans. For these reasons, we are concerned about the Department's ability to meet its commitment in 2000-01.

Exhibit 21.3

Key Components of Statistics Canada's Recruitment Practices

Management support

- Management is continuously involved in human resource planning, including recruitment.
- Policies, systems and practices are effective for managing work force needs because they have been tested and applied for about 10 years.
- The Department follows a central approach to its recruitment and development programs and has a number of management committees and reporting structures that it uses to deliver them.

Human resource planning

- The Department clearly states the strategic direction. It integrates the strategic direction into the long-term planning process. It links the long-term human resource strategy to the strategic direction.
- The Department integrates human resource planning into its operational planning.
- The Department determines renewal requirements from long-term planning exercises and analyses.
- The Department makes three- to five-year forecasts based on the need to deliver its programs and on attrition and promotion rates.
- The Department continuously assesses the strength of its work force.

Management of recruitment

- The Department uses the Post-Secondary Recruitment program for many of its key occupational groups.
- The Department joins the Public Service Commission for promotional visits at university campuses.
- Promotional material explains the Department's working environment.
- The Department stresses merit and fairness in its recruitment practices and provides sensitivity training to recruiters.
- The Department shares information on its recruitment practices.
- The Department's candidates are offered structured training and development opportunities.
- The Department maintains eligibility lists of qualified candidates.

Performance assessment

- The Department periodically assesses recruitment strategies. It conducts surveys to improve recruitment practices and determine whether it has met the expectations of candidates.
- The Department gives feedback to the Public Service Commission on recruitment results.
- The Department monitors recruitment costs.
- The Department tracks acceptance and retention rates and uses this information to adjust future recruitment activities.

Source: Statistics Canada

21.50 The Department of Foreign Affairs and International Trade has hired an average of 50 foreign service officers since 1997 and expects to hire 60 through the fall 2000 campaign of the program. In the past three years, it has hired up to 15 management and consular affairs officers annually. Yet it is experiencing high attrition rates because almost a third of foreign service officers leave after 7 to 12 years on the job. In addition, we noted that roughly 40 percent of officers and 38 percent of executives will be eligible to retire in 2001. In our opinion, these demographics could leave the Department in a difficult position to replace staff if a majority of these employees decide to retire soon. Nevertheless, the Department is not further adjusting its recruitment levels under the program.

21.51 Central agencies and most departments have not analysed labour markets to assess trends that affect the program. In our view, several factors will make it more difficult to attract candidates in the future: a smaller pool of candidates,

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increased competition for candidates, and workers' changing expectations.

21.52 To address the recruitment priority of the federal government, the Treasury Board Secretariat and the Public Service Commission should immediately develop a results-oriented strategy that will identify recruitment expectations for the government.

21.53 In this strategy, the Public Service Commission, the Treasury Board Secretariat and departments should identify appropriate recruitment levels for the Post-Secondary Recruitment program.

There Is a Trend to Hiring on a Term Basis

21.54 Over the past 10 years, specific-period appointments have outnumbered indeterminate appointments by a wide margin (see Exhibit 21.4).

21.55 Many managers we interviewed gave us a number of reasons for hiring employees on a term basis: uncertainty about long-term funding, short-term project work, and a quicker way to replace an indeterminate employee on assignment. They also prefer term hiring because it is faster than hiring for a permanent position and it gave them a chance to assess the suitability of the candidate — a "try before you buy" approach. (It should be noted that indeterminate employees have a probationary period of up to 12 months in some cases.)

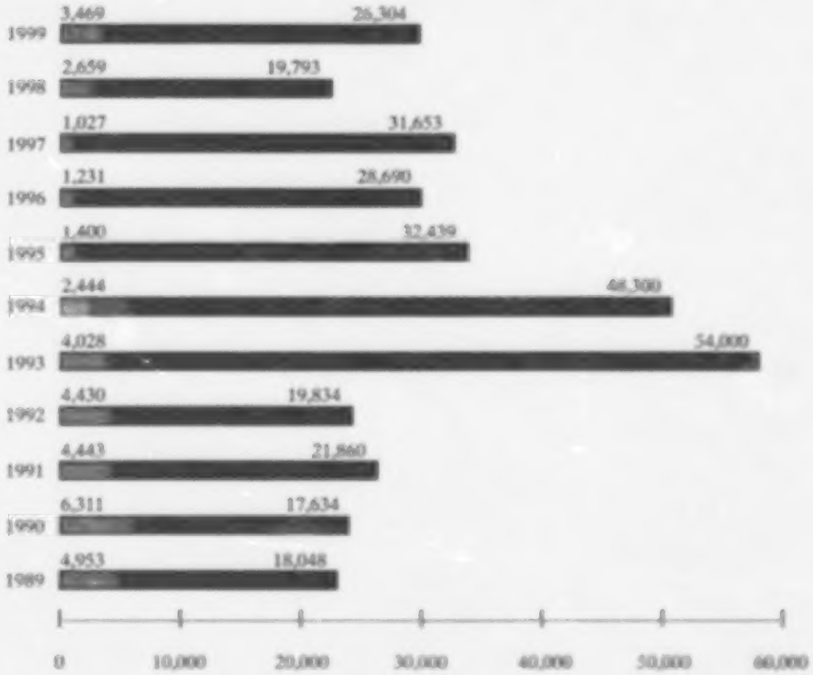
21.56 Managers also indicated that the conditions of the competitions for term employment are quite restricted in the eligible area of competition, specified skills, and the period to apply. These conditions limit the number of applicants. Managers reported that employees on term status are often converted to indeterminate status because they have a proven track record and have gained knowledge of the department and its operation.

Exhibit 21.4

Types of Appointments to the Public Service

▨ Indeterminate

■ Determinate



Note: Determinate employment (term employment) includes part-time or full-time employment for a fixed, predetermined period.

Source: Public Service Commission Annual Reports from 1989 to 1999

21.57 One director of a school of public administration told us that its students, who were studying for a career in the public service, were willing to accept a contract or a term appointment because they see this offer as the primary means of entry into the public service. The director noted that as a result, graduates would spend some of their energy on seeking indeterminate positions, rather than fully committing themselves to their work and dealing with the challenges of the job. They would also become cynical about the recruitment process and careers in the public service. Some managers we spoke to made the same observations. If hired on a term basis, employees would keep searching for a permanent position elsewhere and would likely leave the department if they received an offer. This continuous search has an impact on the work units' productivity.

21.58 Job creation and employment rates are rising and unemployment rates are falling; this trend means that there is more competition for fewer resources. In the 1990's employment increased for knowledge workers in the management, scientific, professional and technical fields. University placement officers also indicated that qualified graduates might not consider the public service for short-term employment when competitors offer permanent positions. Consequently, the public service may be losing qualified candidates and may be finding it more difficult to attract them in an increasingly competitive market.

21.59 In our view, this short-term hiring practice shows a lack of long-range planning. Managers are being reactive by filling their vacant positions with specific-period hiring, with little regard for long-range needs. This trend may also affect the planning and use of the Post-Secondary Recruitment program.

21.60 The Public Service Commission should review departments' hiring on a term basis and assess the extent to which this practice has an impact on the government's strategy for recruitment and on the use of the Post-Secondary Recruitment program.

The Public Service Commission Needs to Be a Better Recruiter

21.61 The Public Service Commission and departments share responsibilities for the Post-Secondary Recruitment program's two campaigns that take place each year.

21.62 As the overall manager of the program, the Commission is responsible for promotion, administration of the application process, initial testing and pre-screening. For corporate development programs (MTP, AETP, and FORD program), it often runs assessment centres and co-ordinates interviews. Once the Commission refers candidates to departments, its work is completed.

21.63 Departments provide the Commission with the type and number of positions for which they will be recruiting and indicate the education and skills required. Some of them promote their positions on visits to university campuses. After the Commission has referred candidates, most departments undertake additional selection processes, including further review of applications, testing and interviews. In many cases, the process takes up to nine months from application to job offer.

21.64 Despite the lengthy process to reach a final decision, officials from departments that used the program were very satisfied with the results and found that selected candidates were well qualified.

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In our view, short-term hiring shows a lack of long-range planning.

Promoting the federal public service to university graduates could be improved

21.65 We expected to find promotion of the public service and its values, and a realistic presentation of the working environment in general.

Students were not aware that the government was hiring and no longer downsizing.

21.66 According to university placement officers and a recent survey of students, the Commission was not sufficiently and aggressively promoting the advantages and benefits of a career in the public service. Information on benefits and compensation, work environment, work challenges and careers was lacking. As well, students were not aware that the government was hiring and no longer downsizing. This fact is significant given the competition for qualified candidates.

21.67 We noted that the Commission has undertaken some promotion initiatives. In 1999 the Commission prepared a Speaker's Resource Kit, which contains general information on the federal public service. For the fall 2000 campaign of the Post-Secondary Recruitment program, the Commission posted more information on its Web site (www.jobs.gc.ca) about the benefits of a career in the public service.

21.68 In 1999 the Department of Foreign Affairs and International Trade produced documentation for candidates that presents a realistic picture of the advantages and disadvantages of a foreign service career. Statistics Canada has a booklet that outlines the selection process and the advantages of a career in the organization.

21.69 In our opinion, more needs to be done to promote the public service as a career choice.

Government visibility on campuses could be better co-ordinated

21.70 We expected the Commission and departments to co-ordinate their visits to university campuses.

21.71 During the program's campaigns, the Commission uses its regional offices' staff to visit university campuses. Some departments that advertise positions through the program also go to universities; others do not.

21.72 We noted that visits by the Commission and departments do not always coincide. Moreover, university placement officers indicated that students were sometimes confused about the image of the public service.

21.73 Some students did not know if the Commission was recruiting for the public service, the Commission itself or the departments. Others were unaware that some departments belong to the public service. The Commission and departments need to review the promotion of the public service as a whole and explain more clearly how positions fit into the overall picture.

21.74 University placement officers indicated that a united approach would have more impact. The Commission could promote careers in the public service in general, and departments could elaborate on the advantages of the opportunities they have to offer. The placement officers and human resource officials in private organizations believe that the most effective practice is to assign for every visit a senior manager who can answer broad questions and a recent recruit who can relate to students' needs.

21.75 University placement officers suggested that the government promote employment opportunities in the students' first undergraduate years to encourage them to consider and prepare for a career in the public service. They also suggested that the government might wish to increase its visibility on campuses. This greater presence would allow it to further promote the public service as a career choice and provide more timely information to students on the Post-Secondary Recruitment program.

The scheduling of the program's campaigns raises problems

21.76 University placement officers and government managers are concerned about the brevity and the restrictive timing of the program's campaigns. Each campaign lasts some four weeks, usually in September and again in January. Recruitment for corporate and departmental development programs is only done in the fall. The program's fall campaign starts in the first week of the semester when most students select their courses, organize their timetables and settle in; the candidate's assessment process takes place during mid-term exams.

21.77 Information on the program's Web site is limited, except during the two campaigns. There is no continuous application process for the Post-Secondary Recruitment program.

The program does not offer opportunities across the country

21.78 While over two thirds of the federal public service work outside the National Capital Region (NCR), we expected that the program would recruit for entry-level positions in other regions.

21.79 We found that the program offered jobs primarily in the NCR. University placement officers told us that students are frustrated by the lack of regional work opportunities and the need to relocate to the NCR. The Commission's regional personnel believes that the program has to be tailored to regional recruitment needs because current opportunities in the NCR are not always attractive to candidates.

21.80 Placement officers added that when the Commission's regional representatives are on campus, they promote only positions advertised under the program. They do not talk about possible regional opportunities in departments that may arise during the year through general recruitment.

There is no continuous application process for the Post-Secondary Recruitment program.

21.81 Recruiters of organizations in the private and para-public sectors have more aggressive, timely and flexible recruitment practices (see Exhibit 21.5).

21.82 When compared with the Commission's recruitment practices, these organizations are more visible on campuses and regularly meet with placement staff and faculty members of institutions. They clearly define their corporate image and do not limit requests for applications to specific periods or campaigns. Their managers focus more on the recruitment results than on process, which is usually less time-consuming.

21.83 The Public Service Commission has taken a number of steps to improve

Exhibit 21.5

Recruitment Practices of Private and Para-Public Organizations

Private organizations

- A Canadian financial institution participates in every job fair on university campuses and offers many perks to attract students. Its Web site is user friendly, and students can submit applications year-round.
- A Canadian insurance company participates in every relevant fair on high school and university campuses that have an actuary sciences program. It offers summer positions to students for three years and eventually a permanent job. The company has a Web site that is user-friendly, and students can submit applications year-round. It also advertises job offers in all relevant newspapers and at Human Resources Development Canada. The company developed a hiring and recruiting kit for its managers.
- An international high-tech firm pays for the tuition fees of the students it hires in the summer so that they can act as its ambassadors year-round on campus. In turn, the firm expects students to participate in career fairs and promote their employer. The firm's Web site is user-friendly, and students can submit applications year-round.

Para-public organization

- A Canadian research establishment locates and tracks undergraduates in biological sciences and offers them summer or term positions. Its intention is to hire them when they graduate with a Ph.D.

Source: Canadian organizations

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the performance of the Post-Secondary Recruitment program's campaigns. However, university placement officers and government managers believe that more improvements are needed in promoting the public service as a career choice, increasing government visibility on campuses, and scheduling campaigns. In addition, expanding the program to offer more regional positions needs to be explored.

21.84 To improve its performance as a recruiter of university students under the Post-Secondary Recruitment program, the Public Service Commission should review the design of the program to make it more flexible, adaptable, and timely.

In 1998, nearly 5,600 candidates met the basic requirements, but were not hired.

21.85 The Public Service Commission should better co-ordinate recruitment efforts with departments to promote the public service as a career choice and to offer opportunities across Canada.

Greater Use Could Be Made of the Program's Campaigns Results

21.86 Some 11,500 graduates applied under the Post-Secondary Recruitment program's 1998 campaign. The Commission referred some 6,400 of them to corporate development programs and to departments for further assessments. As a result, about 800 received appointments, leaving nearly 5,600 candidates who were interested in public service positions and met the basic requirements, but who were not hired.

With the call to renew the public service, we expected that more departments would have participated in the program.

21.87 According to the Commission's information system, general recruitment competitions in 1998-99 resulted in some 7,000 appointments in the Administrative and Foreign Service and Scientific and Professional categories, of which some 5,400 were for a term period.

Inventory of qualified candidates would maximize results

21.88 The Commission spends considerable time and money advertising positions, processing applications, and assessing candidates. However, except in very few circumstances, the Commission does not maintain an inventory of the program's qualified candidates for referrals in other general recruitment processes.

21.89 In our view, if government managers had access to inventories of pre-screened qualified candidates who had been assessed through a broad-based merit process, their staffing process could be more efficient. Managers might also be more encouraged to hire them on an indeterminate basis.

21.90 The Commission manages an inventory of candidates for positions in information management and information technology (IM-IT) and uses innovative techniques to expand opportunities for graduates and to facilitate staffing for managers. The Post-Secondary Recruitment program could benefit from some of these techniques.

Few departments use the program

21.91 Between 1996 and 1999, nine departments regularly advertised positions in the Post-Secondary Recruitment program, and seven others did so occasionally. The many departments that do not hire using the program is puzzling, given that they have positions requiring workers with a university degree.

21.92 Following the call for the renewal of the public service, we expected that more departments would have participated in the program. The number of them taking part in the fall 2000 campaign is higher than in previous years, yet it still represents a small portion of the federal government. We did not find any analysis of this lack of participation.

21.93 The Public Service Commission should maximize the use of the

campaign results of the Post-Secondary Recruitment program by managing an inventory of pre-screened candidates. This inventory could be used to fill positions that are advertised during the program's campaign and for any other government positions.

21.94 The Public Service Commission should determine why more departments are not participating in the program and address departmental concerns in the program's design.

Assessment and Reporting of the Program's Results Are Limited

21.95 We expected the Public Service Commission would regularly assess activities of the Post-Secondary Recruitment program, particularly recruitment acceptance rates, retention rates and costs as well as selection tools.

21.96 Private sector managers provide some analysis and feedback to the human resource divisions to adjust recruitment strategies (see Exhibit 21.6).

Assessment of the program's recruitment activities is weak

21.97 Recruitment acceptance and retention rates are not analysed. In 1999-2000 the Commission undertook the Longitudinal Study, which reviewed the recruitment process from the submission of applications to appointments for the fall 1998 campaign of the program. The objectives of the study were to improve the understanding of the process, advise on the subject and identify any potential barriers to encouraging diversity in occupational groups.

In 1998, departments filled only 62 percent of the positions they had advertised through the Post-Secondary Recruitment program.

21.98 The study states that departments filled only 62 percent of the positions they had advertised through the Post-Secondary Recruitment program in 1998. The study reports a similar figure for previous years. The Commission acknowledged that it cannot explain these shortcomings because it has not systematically gathered information on the number of candidates who have qualified and have been selected through the program. For the same reason, it cannot advise the program's regional co-ordinators to help them adjust their promotion efforts. To improve the monitoring of campaign results, the

Exhibit 21.6

Examples of Feedback on Recruitment in Some Private Sector Organizations

- **A Canadian insurance company expects feedback from managers to adjust its recruitment strategy. Managers are held accountable and report to the Chief Executive Officer if a new recruit does not succeed. The human resources division updates its hiring and recruiting kit based on feedback from managers. The division prepares an exit interview report, which includes the views of departing term employees, and submits it to the CEO for action.**
- **A Canadian financial institution conducts exit interviews of departing employees and adjusts its recruitment strategy accordingly. It also uses the results of exit interviews to update competencies required for entry-level positions.**
- **A Canadian chemical, mechanical and electrical company advertises work diversity to attract the right talent. It expects employees to have three to four careers with the company. After two years, the human resources division and managers discuss new avenues with employees. Because its turnover rate is very low, the company participates in an annual industrial survey on human resources. The survey provides information on the time to fill a position as well as recruitment acceptance rates and costs.**
- **An international industrial firm regularly assesses its recruitment practices and tackles competition from other firms for recruiting in the following way: "Continuous challenges have to be offered to employees. To reduce employees' mobility, these challenges have to be better than those offered by competitors. Nowadays, competitive organizations' recruitment strategies need to consider sculpting positions to attract the right talent."**

Source: Canadian organizations

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Source: Canadian organizations

Commission has established partnership agreements with participating departments that require them to report the reasons for the difference between the number of advertised positions and hired applicants.

21.99 We have mentioned in paragraph 21.46 that some corporate development programs had difficulty in reaching their recruitment levels. These levels have not been revised based on past experience, and recruitment activities have not been revisited to meet these levels in the future. As well, we also found that there is no systematic tracking of candidates after their completion of these development programs to determine whether they have remained in the public service or moved into managerial positions.

21.100 University placement officers would like to know the number of student applications that the Commission received, those referred to departments and corporate development programs and those appointed. This data would help them make recommendations on curriculum and counsel students on careers in the public service.

21.101 We found that Statistics Canada tracks its recruitment acceptance and retention rates for decisions on human resource planning and adjusts its activities accordingly. The Department of Foreign Affairs and International Trade is looking at its problem in retaining foreign service officers. Subsequent to a recent departmental review of its results with the last campaign of the program, the Department is now streamlining its assessment process for Foreign Service and Management and Consular Affairs Officers programs because of similarities in basic recruitment requirements.

21.102 Knowledge of recruitment costs is uneven. We expected that the Commission and departments identify recruitment costs and use the information to improve the management of the Post-Secondary Recruitment program. We found that knowledge and use of this information varied.

21.103 The Commission has estimated that its direct costs for the program increased from $1.19 million in 1997-98 to recruit some 350 candidates in one campaign to $ 1.38 millions in 1998-99 to recruit about 850 in two campaigns. It expected costs to reach $1.44 million in 1999-2000 to recruit 800 candidates. Assessment and selection costs incurred by departments and corporate development programs are not included in these figures.

21.104 We found no cost-effectiveness analysis of the program's components, such as visits to universities, various promotion activities and the use of regional offices. This analysis would allow the Commission to maximize its investment in these components and make necessary adjustments.

21.105 Statistics Canada has a system to adequately monitor its recruitment costs. The Department of Foreign Affairs and International Trade recently began to budget and track its recruitment costs.

21.106 In our view, the uneven knowledge of these costs for recruitment activities — a major investment in human resources — limits the ability of the Commission and the departments to monitor and improve the cost effectiveness of these activities.

The Public Service Commission has undertaken two separate studies to improve its performance in ensuring an employment equity perspective in the candidate's assessment processes.

21.107 Selection tools have been assessed for employment equity bias. The Public Service Commission has undertaken two separate studies to improve its performance in ensuring an employment equity perspective in the candidate's assessment processes. The first study is the External Review of Selected Instruments of the PSC's Personnel Psychology Centre (Cronshaw Report). It assessed a sample of selection tools and tests for potential bias or adverse impact, including some used in the Post-Secondary Recruitment program.

21.108 As a result, the Commission replaced two tests used for the program because of their adverse impact on employment equity. The Department of Foreign Affairs and International Trade changed the education requirements for foreign service officers from a master's degree to a bachelor's degree. Statistics Canada made the same change.

21.109 The second study, the Longitudinal Study discussed earlier, focussed on the program's outcomes for equity groups.

21.110 The Task Force on Visible Minorities, chaired by Lewis Perinbam, suggested in June 2000 that one member of a visible minority be recruited for every five new recruits. The task force reported its concern about the significant reductions between the number of applications received from visible minorities and the number of those appointed. It suggested that the merit principle was not being meaningfully applied. The Commission's Longitudinal Study indicated that the program's 1998 campaign resulted in 22 percent of appointments for visible minorities, well above their labour market participation rate and equal to the hiring ratio proposed by the task force. However, the study also noted a considerable decline in representation from applications to referrals, and then to appointments.

21.111 During our audit, university placement officers mentioned the need for the Commission to increase its contact with various on-campus student associations involved in employment equity issues to further facilitate recruitment under the program. We are aware that the Commission has increased its outreach activities, but it may need to keep universities better informed about its activities.

21.112 We expect the Commission to use the Longitudinal Study to improve and monitor the results of its future program campaigns.

21.113 The program's efficiency and effectiveness has not been assessed. Under the program, the departments hired over 1,500 candidates between 1996-97 and 1998-99, and about an expected 800 in 1999-2000. We did not find any assessment to determine the extent to which recruitment levels under the program are adequate to address the government's recruitment priority. We did not find any analysis to determine whether the program complemented other recruitment activities in the public service.

21.114 Because the overall expectations for recruitment have not been stated, it is difficult to assess the efficiency and effectiveness of the program. For the same reason, it is difficult to determine the extent to which the program is contributing to the renewal of the government's professional and management work force and whether corrective action is necessary.

It is difficult to determine the extent to which the program is contributing to the renewal of the government's professional and management work force.

Reporting of results needs major improvement

21.115 We expected the Commission to report the results of the Post-Secondary Recruitment program.

21.116 We reviewed the Commission's annual reports, its reports on plans and priorities and performance reports. We found that the information presented in the annual reports is usually limited to quantitative data on numbers and types of appointments. These documents do not provide long-term trend analysis or qualitative information such as hiring trends of recruitment programs, expected shortages in occupational groups, and participation and performance of departments in hiring activities by status of employment. Given that the Commission has not stated expectations for recruitment levels, it cannot adequately report results. However, the Commission needs to at least explain the difficulties that it has encountered in trying to meet recruitment levels and discuss the lessons that it has learned.

21.117 Departments and corporate development programs do not report systematically to the Commission the results of their activities through the program against their expectations. Nor do they provide feedback on the Commission's level of service. This information would help to assess the extent to which changes should be made to the recruitment strategy.

21.118 The Public Service Commission and departments should systematically assess recruitment activities under the Post-Secondary Recruitment program to improve its efficiency and effectiveness. The Commission and departments should also report to Parliament on the success of the program.

The work of the Committee of Senior Officials on Recruitment is not complete

21.119 To highlight the importance of the government's recruitment priority, the Clerk of the Privy Council created in October 1999 a subcommittee of deputy ministers on recruitment. The objectives were to develop a problem statement, a federal strategy, and a work plan to address government recruitment needs. The Committee of Senior Officials (COSO) asked the subcommittee to ensure that recommendations consider options for, among other things, the strategic use of recruitment, future government recruitment campaigns and the integration of recruitment activities with the broader exercise of examining program integrity (ensuring that existing programs are adequately structured and resourced).

21.120 The following statement from the report reflects our findings:

> Demographic and labour market realities are leaving [the federal public service] with gaps to be filled, and there will be even greater gaps ahead unless [the government] takes serious, sustained action on recruitment. The public service faces an even greater recruitment imperative than most organizations in Canada — all of this taking place in an increasingly competitive labour market for skilled [knowledge] workers. [Moreover, in the next] five years, a significant number of executives and more importantly, their feeder groups, will be eligible to retire. Current recruitment and career development processes are not enough to meet the expected demand.

21.121 Based on our review of the report and its proposed action plan, we believe that the plan needs further development in setting the government's recruitment levels, building human resource capacity, implementing recruitment alternatives such as "overstocking" or maintaining a pool of generic positions, and reporting results.

21.122 For the Post-Secondary Recruitment program, the subcommittee suggests a number of initiatives that mirror our recommendations: improving the promotion of the program, increasing the government's visibility on university campuses, managing an inventory of pre-screened qualified candidates, and encouraging more departments to use the program. However, the subcommittee's report and action plan do not state specific results expected from these initiatives.

Conclusion

21.123 Our audit and many public reports we have reviewed indicate that the federal public service is experiencing shortages of knowledge workers, which are expected to worsen as demographics and the retirement of the baby boomers come into play in five years. This looming work force crisis will leave the public service with professional and management positions that will be difficult to fill in an increasingly competitive environment.

Therefore, the government must take immediate action.

21.124 Current efforts to deal with the recruitment of human resources are not well co-ordinated because leadership of a government recruitment strategy has not been assigned. Moreover, these efforts are neither timely nor efficient and, as such, are not likely to be effective to renew the professional and management work force of the public service in five years.

21.125 The Public Service Commission, in its current role of recruiter, succeeds in attracting qualified knowledge workers, but this success is not translated into the hiring of sufficient numbers. The design and management of the Post-Secondary Recruitment program needs to be enhanced. The Commission also needs to maximize the use of the program. In particular, the Commission needs to assume its assigned responsibilities as the recruiter:

- to encourage the participation of departments under the program;
- to ensure that government recruitment levels are spelled out and meet the government's objective; and
- to better promote the public service as a career choice to university graduates across Canada.

21.126 The Treasury Board, in its role of employer, needs to provide guidance and guidelines to the human resource community and government managers to help them adequately deal with the recruitment issue. Furthermore, the Board needs to anticipate departments' resource requirements to help them manage the issue.

21.127 Departments need to review their participation in corporate initiatives and current hiring practices and carefully assess the impact of these activities on their long-term human resource planning.

21.128 In addition, the Commission, the Treasury Board Secretariat, and departments need to review how they can best inform Parliament of their progress in recruiting indeterminate employees. A significant improvement would be to report quantitative and qualitative information, such as recruitment practices, resource allocations and achieved results against recruitment levels and specific areas of shortages by occupational groups.

21.129 In our opinion, even if immediate actions are taken to improve recruitment practices under the Post-Secondary Recruitment program, shortages of knowledge workers may nevertheless occur. The Commission may need to consider other alternatives for recruitment above the entry level to minimize potential consequences for the public service in delivering programs and providing services of quality to Canadians.

Response of the Treasury Board Secretariat for the government and the departments audited: *The seriousness of recruitment to the public service is demonstrated by the government's commitment in the 1999 Speech from the Throne and by the Clerk of the Privy Council who created and chaired a Deputy Minister Committee mandated to develop action strategies on this issue. This committee also recognized (consistent with the Auditor General's observations) that tailored recruitment strategies would be required and that entry into the public service should be a consideration at all levels, not only our perceived entry level positions of the past. For example, the Department of Foreign Affairs and International Trade has broadened its recruitment strategy to include mid-career transfers and secondments as well as the traditional entry-level recruitment.*

The Treasury Board is also strengthening its role in overseeing and planning the human resource needs of the public service. As one element of assistance, the Treasury Board Secretariat has launched a

Web site on Demographic Analysis of the Federal Public Service Workforce. *This site contains references and links to research, both inside and outside of the public service. The Secretariat will be working more closely with the Public Service Commission and departments. Our objective is to work in collaboration in the analysis, planning and development of recruitment strategies that will meet department's unique needs.*

As well, deputy heads are leading renewal activities. Fisheries and Oceans has created several working groups at the assistant deputy minister level to lead workplace improvement initiatives. These initiatives focus on ways we can enhance our capability to develop meaningful human resource plans that can address recruitment and retention strategies.

The government concurs with the Auditor General's recommendations. We agree that the public service must adopt an active renewal approach —one that uses this opportunity to enhance our representation of the citizens we serve and that attracts the people with the skills we need for our future work.

Response of the Public Service Commission: *The Commission agrees with the recommendations made on the Post-Secondary Recruitment (PSR) program and the audit observations are consistent with the findings from the Commission's studies, which support the improvements that are under way and those that are being planned.*

The PSR program has been very important in attracting and recruiting new employees to the public service. The Commission agrees with the statement made in one of the main points of the audit report to the effect that the Public Service Commission is recruiting qualified candidates. In the fiscal year 1999-2000, there were 16,636 PSR applicants for 1,131 advertised positions, demonstrating a good market penetration on campuses. However, this is not the only mechanism for hiring managers. In 1998-99, approximately 85 percent of all indeterminate appointments were made by other means than PSR.

The Commission requires significant new investment in resources to maximize the results of the PSR program campaign and make it a strategic recruitment tool for entry into the public service. The Commission needs the resources to rebuild capacity that was lost as a result of the Program Review in 1994 and the consequent decrease in recruitment activities. Recruitment demand has picked up significantly in the last two year. The Commission has re-allocated its resources and:

- *established an additional annual winter PSR campaign since 1998;*
- *introduced on-line job information and application through www.jobs.gc.ca;*
- *enhanced promotion and marketing efforts through increased campus visits; increased presence in career fairs and expanded outreach to employment equity groups;*
- *undertaken specialized recruitment strategies for groups such as the information technology community; and*
- *re-introduced inventories for high demand areas such as Computer Systems Administration (CS) and Personnel Administration (PE) occupational groups.*

Specific comments related to the recommendations: *The Commission will work collaboratively with the Treasury Board Secretariat to support departmental efforts in the elaboration of a results-oriented recruitment action plan and in the determination of appropriate recruitment levels through their human resource planning exercises. The Commission will continue its efforts to assist departments with modeling and demographic analysis. Twelve departments, eight regional areas and four functional communities (policy, communications, regulatory inspection,* *science and technology) have benefited from these services recently. The Commission is also exploring with the Secretariat the establishment, in 2001, of a joint centre of expertise in demographics and modeling.*

The President of the Public Service Commission has increased the PSR program's visibility by personally writing to his colleague deputy ministers, asking them to participate in the program's campaigns, to designate recruitment "champions" and to undertake partnership agreements with the Commission on departmental targets and results framework. It has also established an interdepartmental advisory committee on recruitment programs.

The Commission, in collaboration with the Secretariat, has produced a recruitment action plan. Under this initiative, the Commission has submitted a business case for increased resources to modernize and rebuild recruitment capacity across the public service, which includes the redesign of the Post-Secondary Recruitment program's campaign. With increased resources, the Commission will launch a new PSR by fall 2001. The redesign will address, among others:

- *establishment of a planning framework and results-oriented strategy that identifies recruitment expectations and the appropriate PSR recruitment levels, including regional opportunities, and proactive communication/marketing to departments seeking their commitment to the use of the PSR program;*

- *assessment of term usage and its impact on the program's strategy;*

- *development of public service-wide brand to promote the public service as a career and specific marketing and promotion activities for target areas or occupational groups; co-ordination of recruitment efforts and government visibility on campus; establishment of inventories;*

- *investment in technology to provide tools to hiring managers and human resource advisors and streamline the recruitment process; and*

- *development of a performance measurement framework and tools.*

The PSR program redesign will include an appropriate performance measurement framework and reporting requirements. The Commission will report to Parliament through its Performance Report and Annual Report.

About the Audit

Objective

The purpose of our audit was to determine the extent to which the Post-Secondary Recruitment program will enable the government to renew its professional and management work force and to assess the effectiveness and efficiency of the program.

Scope

We focussed on how the Public Service Commission of Canada and the Treasury Board Secretariat centrally administer recruitment activities. We examined how the Department of Foreign Affairs and International Trade, Fisheries and Oceans and Statistics Canada identified their human resource requirements and made use of the program. In particular, we examined the Management Trainee Program, Foreign Service Development Program, Financial Officer Recruitment and Development program, and the Accelerated Economist Training Program.

Criteria

Our audit criteria are based on the best practices of public and private sectors in recruitment and selection.

We expected the following:

- Renewal requirements that are stated and are consistent with the government's strategic direction.
- Decisions to develop or acquire human resources that are co-ordinated in a timely manner between central agencies and the senior officials of departments.
- Analyses that are conducted over a five-year forecasted period with respect to
  - the current and available professional and management work force and its feeder groups;
  - future renewal requirements of the professional and management work force and its feeder groups, including competencies; and
  - work force gaps by demographic cohort (difference between requirements and available work force).
- Effective and efficient recruitment strategies that are targeted to fill short- and long-term renewal requirements.
- Recruitment strategies that reflect corporate public service staffing values (e.g., competency, non-partisanship and a representative work force) and provide a realistic view of the working environment in general.
- Policies, systems and management practices that are in place. Roles, responsibilities and accountabilities that are identified for recruitment and selection decisions. Related recruitment costs that are identified and used in decision making for recruitment.
- Best recruitment practices that are shared to facilitate recruitment performance improvement.
- Analyses of acceptance and retention rates that are conducted and used to improve recruitment strategies.
- Selection and assessment tools that are analyzed for biases and barriers to ensure that objectivity and transparency are maintained throughout the selection process.

- Regular assessment that is done of recruitment strategies and programs against expected forecast requirements and related costs.
- Reporting that is conducted on recruitment strategy, programs and results against expectations.

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Appendix A

List of Occupational Groups for the Scientific and Professional, and Administrative and Foreign Service Categories

Occupational groups for the Scientific and Professional category		Occupational groups for the Administrative and Foreign Service category	
AC	Actuarial Science	AS	Administrative Services
AG	Agriculture	CO	Commerce
AR	Architecture and Town Planning	CS	Computer Systems Administration
AU	Auditing	FI	Financial Administration
BI	Biological Sciences	FS	Foreign Service
CH	Chemistry	IS	Information Services
DE	Dentistry	MM	Management Trainee
DS	Defence Scientific Service	OM	Organization and Methods
ES	Economics, Sociology and Statistics	PE	Personnel Administration
ED	Education	PG	Purchasing and Supply
EN	Engineering and Land Survey	PM	Program Administration
FO	Forestry	TR	Translation
HR	Historical Research	WP	Welfare Programs
HE	Home Economics		
LA	Law		
LS	Library Science		
MA	Mathematics		
MD	Medicine		
MT	Meteorology		
ND	Nutrition and Dietetics		
NU	Nursing		
OP	Occupational and Physical Therapy		
PH	Pharmacy		
PC	Physical Sciences		
PS	Psychology		
SE	Scientific Research		
SG	Scientific Regulation and Patent		
SW	Social Work		
UT	University Teaching		
VM	Veterinary Medicine		

Source: Treasury Board Secretariat's Employment Statistics for the Federal Public Service

Appendix B

Summary of the Report of COSO's Subcommittee on Recruitment, July 2000

Most departments believe that they are facing a significant recruitment challenge over the next five years, as they prepare for the retirement of an aging work force. Some departments are conducting leading-edge recruitment, and others know they have to act. Departments need to play a more corporate role in sharing innovative approaches to develop more strategic recruitment practices for the future.

While departments expect to make increasing use of the Post-Secondary Recruitment program, the program accounts for only one percent of new appointments each year in the professional categories. The Management Trainee Program and other corporate initiatives exist and are used, but it is not clear that these are linked to concrete, strategic human resources plans.

The subcommittee recommended that public service leaders do the following:

- offer permanent jobs, where appropriate, to qualified new recruits and assess their potential during the probationary period, instead of using term assignments to determine their suitability;
- make human resource planning an integral part of business planning and align recruitment with future business direction;
- inform the President of the Public Service Commission of any barriers to recruitment that need to be eliminated; and
- challenge departmental corporate services to support innovative approaches.

The subcommittee also recommended that human resource specialists do the following:

- ensure that recruitment managers have the support to effectively recruit, orient and retain new employees; and
- provide strategic advice and guidance on how to recruit the right people for the right place at the right time.

The subcommittee mentioned that the Public Service Commission and the Treasury Board Secretariat have made an important contribution to moving forward on recruitment, and they are committed to going even further. The central agencies submitted an action plan, Meeting the Recruitment Challenge. The action plan sets out recruitment priorities, including the following:

- There will be more use of the Post-Secondary Recruitment program and attention to current occupational shortages.
- A pool of generic positions will be created into which young professionals can be hired.
- Workplace-of-choice efforts will centre on promoting the public service among potential recruits, especially on university campuses.
- Strategic planning will help to clarify recruitment needs for the next three to five years, with specific business cases for key recruitment challenges. Over time, this initiative will lead to recruitment planning as an integral part of doing business for all managers.

Here are some of the short-term deliverables from the central agencies' action plan:

- For strategic planning, recruitment forecasts will be submitted by April 2001 and April 2002.
- For market analysis, research and review to support forecasting/demographic modelling and work force studies will be ongoing in 2001 and 2002.
- For information on progress, results and accountability, a Post-Secondary Recruitment Partnership Agreement will be signed with departments in 2001 and 2002.

On February 2000 the Clerk of the Privy Council requested deputy ministers to provide information on their department's plan for recruitment. The following reflects some main points of the executive summary:

- It is not clear from the replies received that the sense of urgency has reached the level of hiring managers.
- Most departments are in the planning phase of recruitment and are developing recruitment strategies. There is little information on the specifics of what is planned.
- There is less clarity on what needs to be done for general recruitment across the public service.
- Several departments signalled the need to move to "overstocking" (recruiting more employees than actually needed to prevent major recruitment in the future) for a specified period of time to bring in and develop successors and help address the workload.
- A one-size-fits-all employment package will not meet the diverse needs of functional communities and regions.
- Some departments are experienced recruiters and would be a source of practical expertise.

Report of the
Auditor General of Canada to the House of Commons – 2000
Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6
5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter

15 Health Canada – First Nations Health: Follow-up

Other Observations
16 Follow-up of Recommendations in Previous Reports
17 Other Audit Observations

Volume 3 – December 2000

Chapter

Matters of Special Importance – 2000
Foreword and Main Points

18 Governance of Crown Corporations

19 Reporting Performance to Parliament: Progress Too Slow

20 Managing Departments for Results and Managing Horizontal Issues for Results

21 Post-Secondary Recruitment Program of the Federal Public Service

22 Development of the Universal Classification Standard: A Follow-up

23 Information Technology: Acquisition of Goods and Services

Protecting Health and Safety
24 Federal Health and Safety Regulatory Programs
25 Canadian Food Inspection Agency – Food Inspection Programs
26 Health Canada – Regulatory Regime of Biologics
27 Canadian Nuclear Safety Commission – Power Reactor Regulation
28 Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

29 Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

30 Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

31 Fisheries and Oceans – Fleet Management

32 National Defence – Defence Support Productivity: A Progress Report

Other Observations and Appendices
33 Follow-up of Recommendations in Previous Reports
34 Other Audit Observations

35 Sustainable Development Strategy for the Office of the Auditor General

Report of the
Auditor General of Canada
to the House of Commons

Chapter 22
Development of the Universal Classification Standard:
A Follow-up

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

© Minister of Public Works and Government Services Canada 2000
Cat. No. FA1-2000/3-22E
ISBN 0-662-29585-4
Copies françaises aussi disponibles

Chapter 22

Development of the Universal Classification Standard

A Follow-up

The follow-up work was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

Table of Contents

Page

Main Points 22-5

Introduction 22-7

- Why is a new classification standard needed? 22-7
- A very large and highly complex project that requires time 22-8
- Focus of the follow-up 22-9

Observations and Recommendations 22-9

Some Challenges Impacted the Project Throughout 22-9

- Changes in leadership and staff during the project brought some constraints 22-9
- Funding process did not follow normal processes for projects of this size 22-11
- Timelines that proved to be unrealistic have compromised progress 22-11
- An uneven consultation process 22-11
- We advised the Secretariat of our concerns in 1998 22-12

Improving the Standard's Design 22-12

- The Secretariat followed an exhaustive method of data collection 22-12
- The new information was used to improve the Standard's design 22-13
- Validating the Standard was the weak link 22-13
- The 5,000-position sample used for validation had serious limitations 22-13
- The Secretariat guides and methodologies reflect the state of the art 22-13
- Conditions in departments were not conducive to successful validation 22-14
- Results of the evaluation of the 5,000-position sample were not reliable 22-15
- The Standard benefited from a second validation 22-15

Improving the Application of the Standard 22-16

- Additional quality assurance measures after validation 22-16
- Departments took seriously the need to improve the quality of the position evaluation results 22-16
- Departments call the Universal Classification Standard a promising job evaluation tool 22-19
- The Secretariat is taking further steps to ensure the Standard's adequate application 22-19
- An opportunity for the Secretariat to demonstrate to what extent the Standard achieves its objectives 22-19

Weighting the Standard's Elements 22-19

- A preliminary weighting scheme was developed 22-19

The Challenges Ahead 22-20

- Converting the existing classification of positions to the new classification system will be a critical challenge 22-20
- Conditions for success 22-21

Conclusion 22-22

About the Follow-up 22-23

Exhibits

22.1 Major Phases and Key Activities of the Universal Classification Standard 22-10
22.2 Factors and Elements of the Universal Classification Standard 2.0 22-17

Development of the Universal Classification Standard

A Follow-up

Main Points

22.1 The Treasury Board Secretariat has made major progress in implementing our 1996 audit recommendation on the development of the Universal Classification Standard for the federal public service. This project is fundamental to the reform of human resource management, particularly for staffing and compensation. It is a monumental and highly complex undertaking that requires much time. The present system is outdated and no longer meets the requirements of today's public service and tomorrow's.

22.2 In the last few years, the Secretariat has designed a standard intended to measure the content of diverse types of work in the public service, and has subjected it to a series of tests in departments. Since 1998, departments have been writing new work descriptions for all positions and evaluating them against the Standard. In the course of this project, the Treasury Board Secretariat has developed and issued guides and methodologies based on best practices in job evaluation.

22.3 Despite these achievements, the government still has to address significant issues:

- The Treasury Board Secretariat needs to ensure that the new Standard is being applied appropriately before fully converting to it.
- Departments need to ensure that their work descriptions are accurate and their position evaluation results valid and adequate.
- The Secretariat needs to perform further testing, based on accurate and up-to-date evaluation data, to establish the extent to which the Standard meets its stated objectives to be universal and gender-neutral.
- The government needs to ensure that reasonable and realistic financial resources are available to convert to the new Standard.

Background and other observations

22.4 A classification standard is a measuring tool for determining the relative value of positions in an organization. The Universal Classification Standard, now being developed, must be capable of evaluating all positions in the public service on the basis of work content. The results will be used to establish a hierarchy of positions and the compensation that reflects their requirements.

22.5 The Standard will apply to all Public Service employees for whom the Treasury Board is the employer, with the exception of the executive group. At August 2000, there were some 150,000 positions in 72 separate occupational groups, in some 65 departments and agencies subject to the new classification system. The development of a new classification standard has to meet the requirements of the *Canadian Human Rights Act* on equal pay for work of equal value.

22.6 The existing classification standards do not reflect today's emphasis on serving the public and managing for results. They also do not make reference to the fact that public servants work more and more in partnership with other levels of government and the private sector.

22.7 The development of a new classification standard was launched in 1991 as part of the Public Service 2000 initiative. In 1996, we reported serious deficiencies (May 1996 Report, Chapter 5). Pursuant to our recommendations and the findings of its own review, the government began to improve the Universal Classification Standard. This follow-up chapter is a progress report on the initiative to date.

The Treasury Board Secretariat has responded positively to our findings and recommendations and has affirmed that progress will continue to meet the Universal Classification Standard objectives.

Introduction

22.8 With the launch in 1989 of its Public Service 2000 initiative, the government was seeking to renew the public service and achieve a culture oriented more toward serving clients and delivering results. It set up a task force to review classification and job evaluation. The task force recommended in 1990 that the government develop a new job evaluation system that would be simple, universal and gender-neutral. By fall 1993, a new job evaluation system developed by the Treasury Board Secretariat was in "final draft" form. We decided that before the new system was fully implemented, we would examine whether it would enable the Secretariat to achieve its objectives. The Secretariat's work continued, and the June 1995 version of the Universal Classification Standard became the subject of the audit we reported on in 1996.

22.9 The 1996 audit focussed on assessing whether the proposed Standard would indeed be universal, gender-neutral, simple and cost-neutral. We concluded that while the Standard at that time was a significant improvement, that it would be universal and gender-neutral was not assured. Furthermore, writing and evaluating job descriptions remained relatively complex and costly.

22.10 Since 1996, the Secretariat has focussed its efforts on achieving universality and gender neutrality in the design of the Standard and ensuring that this new evaluation tool is valid and reliable.

Why is a new classification standard needed?

22.11 Largely designed almost 40 years ago, the current classification system is outdated and no longer meets the operational requirements of today's public service and tomorrow's. A number of the classification standards no longer reflect the nature of the work employees do or the way they do it. And no classification standard at present reflects today's emphasis on serving the public and managing for results. Public servants work more and more in partnership with other levels of government and the private sector, and existing standards make no reference to the requirements of that work.

22.12 Since 1991, when the project to develop a new standard began, the introduction of new technologies has changed the nature of work at all levels. Today, over half of public servants are "knowledge worker" professionals.

22.13 As the 1990 PS 2000 task force report acknowledged, existing job evaluation systems are too complex, take too long and cost too much to operate.

22.14 As the federal employer, the Treasury Board is subject to the *Canadian Human Rights Act*. The task force pointed out in 1990 that existing job evaluation systems did not meet the requirements of the Act, and it recommended the development of a new system that would. Moreover, decisions on major pay equity complaints in the public service heard by different Canadian Human Rights Tribunals concluded that the current job evaluation systems did not meet the guidelines on equal pay for work of equal value. In one decision, the Tribunal directed the Treasury Board to correct inequities in the job evaluation system with a new classification standard, free of gender bias. In another decision, the Tribunal dealt only with the salary component of the complaint; it deferred its decision on the gender discrimination component, in part because the government indicated that it was developing a single, universal classification standard that would be gender-neutral.

Largely designed 40 years ago, the current classification system is outdated and no longer meets the operational requirements of today's public service and tomorrow's.

22.15 The present classification system confines employees to the narrow limits of their job descriptions and is a considerable obstacle to redeployment of resources. Its rigidity prevents the public service from adapting to the changing needs of programs and their clients.

The Universal Classification Standard is critical to reforming human resource management in the public service.

22.16 The Universal Classification Standard is critical to reforming human resource management in the public service. Without a classification standard that can serve as a strong basis for staffing, promotion and compensation, the employer will find it hard or impossible to attract and retain the best people and ensure that a competent public service continues.

A very large and highly complex project that requires time

22.17 The process of developing a classification standard or a job evaluation system is not a mathematical exercise. It involves a degree of subjectivity and the use of judgment. To minimize the subjectivity and to obtain valid, reliable and credible job evaluation results, the process must therefore be rigorous, ordered and systematic. Furthermore, to ensure that the system will meet the needs of the organization and that the results will be consistent, acceptable and equitable, the development process needs to include all stakeholders: management, employees, employee representatives and regulatory bodies. Working out this process and the quality control mechanisms to support it requires a great deal of time and is essential to the success of such a project.

Developing a new standard that adequately takes into account the value of all significant characteristics of work in the public service is a huge task.

22.18 A classification standard is a measuring tool for determining the relative value of positions within an organization. The Universal Classification Standard must be able to evaluate all positions in the public service on the basis of their work content. When all the positions have been evaluated, the results can be used to establish a hierarchy of positions and the salaries that reflect their requirements. This approach to determining salaries was suggested by the PS 2000 working group on compensation with the aim of ensuring internal equity in the organization.

22.19 The size of the organization is another factor that adds considerably to the complexity, the risks and the time involved in developing a new standard. The Standard will apply to all federal Public Service employees (*Public Service Staff Relations Act*, Schedule 1, Part 1), for whom Treasury Board is the employer, with the exception of the executive (EX) group. The more jobs there are and the more varied their work content, the more complicated and risky the process of developing a standard will be. In the public service, for example, the Position Classification Information System showed in August 2000 some 150,000 positions in 72 separate occupational groups, in some 65 departments and agencies that are subject to the new classification system. The variety of positions is vast, ranging from research scientists, nurses, program managers and policy analysts to ships' officers, electricians, secretaries, pay clerks, and maintenance workers. Developing a new standard that adequately takes into account the value of all significant characteristics of work in the public service is a huge task.

22.20 Meeting the requirements of the *Canadian Human Rights Act* is another significant challenge. Often ignored, the requirements are based on the concept of equal pay for work of equal value. In developing a job evaluation system in a federal organization, the value of positions in predominantly female groups must be compared with that of positions in predominantly male groups, using a common standard and taking into account the four factors specified in section 11 of the Act: responsibilities, skills, effort and working conditions. The government must comply with its own legislation. In addition, a Canadian Human Rights Tribunal has decided that a gender-neutral job evaluation system is required by the Act. Given that requirement and the Tribunal's decision, the government decided to develop a single universal standard capable of comparing positions across different groups.

22.21 Gaining stakeholder participation and acceptance at each stage would prove to be a complex and time-consuming endeavour for the Treasury Board Secretariat. The project involved 16 different unions, each representing the specific interest of a different part of the public service.

22.22 Compensation rates, market forces, and supply and demand of certain skill sets outside the public service may also affect the ability to reach a consensus and may not always reflect internal equity. The Treasury Board Secretariat must work to find an acceptable solution that takes into account pay equity requirements, internal equity, market forces, and affordability — difficult challenges to reconcile.

Focus of the follow-up

22.23 This chapter discusses our follow-up of the audit we reported in May 1996, Chapter 5. We assessed the extent to which the Treasury Board Secretariat has implemented our recommendation dealing with the development and validation of the Standard. The chapter examines the development of the Standard, its important components, the methodologies developed by the Secretariat, and the application of the Standard in departments and agencies up to September 2000.

22.24 Our follow-up work does not cover the other recommendations we made in 1996, on the issue of cost and on the simplification of the job evaluation system and the occupational group structure. We note, though, that in replacing 70-odd existing standards, the new single Standard represents a considerable simplification of the classification process.

22.25 In the process of developing the Standard, since 1996 the Secretariat has sought the advice of the Canadian Human Rights Commission on the application of the *Canadian Human Rights Act*. The Canadian Human Rights Commission has also been investigating the extent to which the Standard is gender-neutral. We therefore excluded the Standard's gender neutrality objective from the scope of our chapter, relying instead on the Commission's work and opinion.

22.26 This chapter focusses mainly on the validity, reliability and universality of the Standard; its testing and application and the development of supplementary tools were still under way as we were writing. Further details on the objectives and scope of our work are presented at the end of this chapter, in **About the Follow-up**.

Observations and Recommendations

22.27 The Treasury Board Secretariat has made major progress in implementing our 1996 audit recommendation on the development of the Universal Classification Standard for the federal public service. Despite problems along the way, the Secretariat has set up a process for developing the Standard that is ordered, systematic, and significantly more exhaustive than was the process prior to 1996. The major phases of the project are outlined in Exhibit 22.1.

Despite problems along the way, the Secretariat has set up a process for developing the Universal Classification Standard that is ordered, systematic, and significantly more exhaustive than was the process prior to 1996.

Some Challenges Impacted the Project Throughout

Changes in leadership and staff during the project brought some constraints

22.28 Since 1996, the project has seen successive changes in leadership: two Secretaries of the Treasury Board, three Chief Human Resources Officers, and two Assistant Secretaries in charge of the project. At other levels, staffing has

Exhibit 22.1

Major Phases and Key Activities of the Universal Classification Standard

Design Development

- Work information gathering: November 1996 to December 1997
  - Samples of 737 positions
- Design development and informal testing of the Standard: January to August 1998

Validation of the Standard

- First validation of the Standard version 1.0: July to December 1998
  - Sample: 5,000 positions across 56 departments
  - Writing and evaluating job descriptions of these 5,000 positions in departments
  - Qualitative and quantitative analyses
- Revision of the Standard version 1.0 and release of the Standard version 1.1: January to April 1999
- Second validation of the Standard version 1.1: April to July 1999
  - Evaluation of the same sample of 5,000 work descriptions (some revised) in a controlled environment
  - Qualitative and quantitative analyses
- Revision of the Standard version 1.1 and release of the Standard version 2.0: July to October 1999
- Application of the Standard to all positions in the public service: ongoing since August 1999

Quality Assurance Initiatives

- Development of an analytical framework to improve quality: January and February 2000
- Workshops with departments to ensure the consistent application of the Standard: February to May 2000
- Release of supplementary technical bulletins and guides: July 2000
- Audit of work descriptions of 1,000 positions: September 2000 – ongoing
- Qualitative assessment of application of 1,000 positions: October 2000 – ongoing
- Periodic assessment of the Standard's application: to come

Development of Preliminary Weights

- Development of weighting tools and scenarios: June 1999 to December 1999
- Release of preliminary weights: February 2000
- Impact analyses of the preliminary weights: ongoing

Transition

- Conversion planning
- Development and implementation of communication and change management strategies
- Compensation policy and pay structure
- Collective agreements
- Conversion

Source: Treasury Board Secretariat documentation been largely by secondment, with significant turnover on the core team. With changing staff came different views on what constituted a reasonable and satisfactory standard. This added complexity to the project's management and led to numerous changes in the schedule.

Funding process did not follow normal processes for projects of this size

22.29 The funding process followed for the development of the Standard did not sufficiently take into account the size, complexity and importance of such a project. As with other major projects like Modernization of Comptrollership and the Financial Information Strategy, we expected that adequate funds would be granted to departments and the Secretariat to properly deliver this project. The Treasury Board Secretariat established a "loan" fund of some $60 million to help departments with the costs of training, writing work descriptions, and evaluating jobs. However, departments that used this funding have to pay it back within three years. Departments have largely had to fund the project from their existing budgets and resources. Since the project has taken longer than anticipated and involved significant time and effort of line managers and employees as well as human resources staff, its financial impact to date has likely been underestimated and will be difficult to account for accurately.

22.30 In our opinion, the approach to funding this project has represented an ongoing risk to its successful completion. The scope of our follow-up did not allow for auditing the full costs of developing and validating the Standard and applying it in departments. However, the Secretariat has told us that the direct incremental cost of the organizational unit at the Secretariat who developed the Standard has been about $20 million since 1996. Some 40 departments of various sizes have reported costs that total some $35 million up to June 2000.

Timelines that proved to be unrealistic have compromised progress

22.31 From the start, the Treasury Board Secretariat imposed on itself a schedule that greatly underestimated the nature and complexities of a project like the development of the new Standard, which it planned to have ready by 31 March 1999. The Canadian Human Rights Commission has expressed concern to the Secretariat since early 1998 about the pace at which aspects of the Standard have been developed and applied.

22.32 Throughout the project, and as we were writing this chapter, the tight deadlines have caused departments major difficulties in evaluating positions, as they tried to avoid compromising the quality of the results while meeting the deadlines.

An uneven consultation process

22.33 One of the difficulties in developing the Standard has been the varying degrees to which stakeholders have been consulted, particularly employee unions and the Canadian Human Rights Commission. From late 1995 until early 1998, the Treasury Board Secretariat held meetings with all stakeholder groups together, and their participation and co-operation made it possible to consider their concerns and advance the project effectively. In mid-1998, however, when the initial design was complete and the project was moving to the next phase, the Secretariat considered that this process was no longer effective and it reduced the level of consultation to separate meetings with each stakeholder group. The Secretariat has stated that the same topics were covered in its meetings with every stakeholder group. However, we believe that the change to separate meetings left each group with no confidence that it had a grasp on all facets of the project and unaware of the concerns of other stakeholder groups. It also left stakeholder groups with questions and concerns about the transparency of decisions. Since

In our opinion, the approach to funding this project has represented an ongoing risk to its successful completion.

Given the risks and the potential implications for the Standard's chances of success, we told the Secretariat in October 1998 that we were concerned about the project's tight timelines and the reduced level of consultation.

mid-1999, however, consultations have improved and have been more open.

We advised the Secretariat of our concerns in 1998

22.34 Given the risks and the potential implications for the stakeholders' co-operation, the project's viability, and the Standard's chances of success, we formally expressed our concerns to the Secretariat in October 1998 about, for instance, the project's tight timelines and the reduced level of consultation. The Secretariat responded that it believed the change in consultation was appropriate, given the stage the project had entered, but indicated that it recognized the need for subsequent consultation. In our view, the Secretariat's decisions seemed to be guided mainly by its desire to meet the 31 March 1999 deadline for converting all positions to the new Standard. As experience later demonstrated, the timelines were unrealistic, and full consultation was critical for the project to proceed smoothly.

In 1996-97, the Secretariat established a rigorous method and several quality control mechanisms for collecting comprehensive, valid and reliable information on a wide range of job content.

Improving the Standard's Design

The Secretariat followed an exhaustive method of data collection

22.35 To ensure that the Standard could measure the value of all work done in the public service, the Secretariat needed a very good understanding of the breadth of that work. This understanding was critical to determining the elements the Standard would need to be universal, and the scales needed to measure their value. The Secretariat designed two samples of positions to collect information about the current work in the public service, based on criteria intended to reflect the wide diversity of positions and to take into account the requirements of the *Canadian Human Rights Act*.

22.36 The two samples comprised a total of 737 positions that, according to the Secretariat, reflected a combination of key jobs and positions of various types. The Secretariat considered that they provided a good illustration of the variety of work in the public service while also taking into account positions held predominantly by males and those held predominantly by females.

22.37 The final composition of these two samples resulted in part from a consensus negotiated among various stakeholders. This approach to defining the samples, while reflecting the Secretariat's desire to meet stakeholders' expectations, was an approach based on judgment and we would expect the Secretariat to have taken into account the risks of using a sample arrived at in this way. While the sample covered a wide range of jobs, the documentation we reviewed did not show to what extent it covered the full range, or which jobs were left out. Given that its design was based on these samples, we did not have sufficient assurance to conclude that the new Standard could capture and evaluate all job content in the public service. In response to our concerns, the Secretariat told us it would remain diligent and would capture the missing job characteristics, if any, during the next stages of the Standard's development.

22.38 In 1996-97, the Secretariat established a rigorous method and several quality control mechanisms for collecting comprehensive, valid and reliable information on a wide range of job content. The data collection method was tested first in a pilot project to verify the effectiveness of the collection tool itself, the collection process, and the training kit for those who would be collecting the data.

22.39 The Secretariat interviewed the incumbents of 737 positions in two samples, at 114 work sites across Canada. During this phase, the Secretariat set up quality control mechanisms to ensure that the information supplied by the incumbents was up-to-date and complete, and reflected the actual work.

The new information was used to improve the Standard's design

22.40 Working with departments, unions, and consultants who were specialists in job evaluation, the Secretariat conducted a critical review of all components of the version of the Standard we had audited in 1996. It continued to improve the Standard's design, using the results of its review and the analysis of the data collected on job content. Several versions of the Standard were produced, each with successive in-depth modifications to both its design and its components.

22.41 Between February and mid-May 1998, the Secretariat conducted informal tests of the modified Standard in a small sample of about 250 jobs in seven departments that had volunteered to participate. The Secretariat used the results as a basis for a number of changes. It also decided that it was time to undertake a formal validation in a sample of positions throughout the public service.

Validating the Standard was the weak link

22.42 The objective of validating the Universal Classification Standard was to verify its validity, reliability, universality and gender neutrality when applied to a representative sample of jobs in the public service. Given the scope and complexity of the task and its impact on the success of the project, we looked for indications of the level of accuracy, reliability and validity in the job evaluation results that departments and agencies provided to the Secretariat to validate the Standard. We expected that the data used for validation purposes were up-to-date and met the requirements of the Secretariat's guidelines.

The 5,000-position sample used for validation had serious limitations

22.43 We expected that the Secretariat would have developed a methodological framework that described the assumptions underlying the sampling, recognized the limits of the sample and, where necessary, determined the impact of those limits on the analysis of the job evaluation results. We saw only limited documentation of the sampling approach. The Secretariat could provide information on the size, general characteristics and purposes of the sample but not on the assumptions used in sampling and their impact.

Several versions of the Standard were produced, each with successive in-depth modifications to both its design and its components.

22.44 In March 1999, following its assessment of the appropriateness of the sampling method, Statistics Canada concluded that the sampling method was essentially based on judgment and had produced a sample that could not be shown to be representative of the full diversity of jobs in the public service; and that analyses based on such a sample could be misleading. Some officials of the Secretariat concurred.

22.45 The sample contained some 2,700 different jobs, accounting for some 5,000 sampled positions. The most common and key jobs were selected in large numbers. This, in effect, limited the diversity of the positions in the sample, resulting in reduced assurance that it represented the full range of work characteristics in the public service. We agree with Statistics Canada that the results of validation based on such a sample cannot be extrapolated in a statistically reliable way to the current public service positions. At a minimum, decision makers should understand the limitations of these samples in their deliberations.

Statistics Canada indicated that the results of validation of the selected sample of positions could not be generalized to all current public service positions.

The Secretariat guides and methodologies reflect the state of the art

22.46 The May 1998 Standard, Version 1.0, was the first version validated. To ensure that departments would apply its Standard as consistently and precisely as possible, the Secretariat provided a number of tools for them to work with the Standard and become familiar with it. For example, it developed methodology guides to enable departments to write their work descriptions and evaluate them in accordance with the intent of the elements in the Standard. It also developed a methodology for developing model work descriptions to speed up the exercise and provide for consistent descriptions and evaluations of similar or identical positions across departments. These tools are based on best practices and reflect the state of the art in job evaluation.

The Secretariat gave departments and agencies a project management framework that identified critical success factors and performance indicators.

22.47 The Secretariat gave departments and agencies a project management framework that identified critical success factors and performance indicators. It also provided sources of information from which both the departments and the Secretariat could verify the way they carried out and managed the exercise.

22.48 The Secretariat also set up an organizational infrastructure to give departments the necessary support for applying the Standard and to follow the progress of the job evaluation exercise. Training and information sessions were held for a number of participants. In order to obtain valid and reliable data, the Secretariat made it compulsory for departments and agencies to apply its methodologies and procedures in the validation.

The Secretariat counted on a sound validation process in departments to guarantee adequate results.

Conditions in departments were not conducive to successful validation

22.49 We visited eight departments and examined the way they evaluated their positions from March 2000 to the end of September 2000. Our interviews and our review of documentation revealed the following:

- In some departments we visited, senior management gave hesitant support to the application of the new job evaluation system because of the prevailing scepticism about the viability of the project and the new values embodied in the Standard.
- Most of the departments we visited were not ready to apply the Standard during 1998. For instance, some departments and agencies had not reviewed the classification of their positions to make sure it was valid before using the Standard. Nor had they checked the accuracy of their classification data banks and identified all generic jobs to reduce the workload in writing job descriptions. As a result, some departments had difficulty applying the Standard while at the same time making sure the classification status of their positions was current.
- The timetable imposed on departments caused them serious problems and compromised the quality of the data bank on which the Secretariat based its analyses:
  - Many departments were unable to offer all the necessary training in writing work descriptions and evaluating positions.
  - In many cases, the work descriptions were not reviewed by supervisors and employees to ensure that they were accurate and complete.
  - Most departments we visited were unable to review the position evaluation results systematically for consistency and accuracy before sending them to the Secretariat.
  - A number of departments deplored the fact that the timetable underestimated the learning curve needed to master the Standard.

22.50 Testing a new job evaluation plan of this scope in so many organizations requires a structured, well-defined framework. The Secretariat provided such a framework that outlined expected results. In reviewing the progress reports, we noted that departments described the activities, processes and procedures they had set up but not the extent to which they achieved the desired results. The Secretariat counted on a sound validation process in departments to guarantee adequate results. In our opinion, the Secretariat needed to take additional monitoring steps to ensure that position evaluation results were reliable.

Results of the evaluation of the 5,000-position sample were not reliable

22.51 We learned in our interviews conducted from March to the end of September 2000 that, to the best of their knowledge, departments generally had applied the Secretariat's directives and methodologies in writing work descriptions and evaluating jobs. However, evaluation committees in several of the departments we visited reported that some job descriptions they had evaluated were incomplete or of poor quality. All departments we visited indicated that the results of the 5,000 positions they sent to the Secretariat could not be considered reliable or accurate and required extensive review.

All departments we visited indicated that the results they sent to the Secretariat for the 5,000-position sample could not be considered reliable or accurate and required extensive review.

22.52 In December 1998 the Secretariat conducted detailed analyses of several aspects of the Standard, without full knowledge of the poor quality of data from departments. In our opinion, this first validation exercise had important limitations and could not be used to demonstrate adequately that the Standard was universal. However, we observed that the Secretariat used the results of these analyses to improve the reliability and validity of several elements in Version 1.0 of the Standard.

22.53 The Secretariat introduced corrective measures in January 1999, targeting the aspects of the Standard that presented the greatest difficulties. It significantly revised seven elements of the Standard and produced supplementary guidance on its application. A new version of the Standard, Version 1.1, was published in March 1999.

The Standard benefited from a second validation

22.54 It is considered best practice to undertake several validations in order to obtain sound results. The Secretariat carried out a second validation to verify whether the changes incorporated in Version 1.1 of the Standard had improved its reliability. That is, could the Standard be interpreted and applied consistently in a number of different situations across the public service?

22.55 The second validation was deliberately conducted in a central and controlled environment, with the participation of 250 managers and employees selected for their sound knowledge and their experience in using the Standard. Experts on the Standard and on gender neutrality were available on-site to provide clarification, when necessary. While the profile of the people selected and the support provided were appropriate to test the validity of the Standard — whether the Standard measures what it is supposed to measure — it was not adequate for testing the Standard's reliability. This type of ideal environment, not representative of the normal environment of the public service, would likely remove factors that could negatively affect the reliability of the Standard and could skew the validation results.

22.56 The second validation used the same 2,700 jobs accounting for the 5,000-position sample with work descriptions that had had a number of deficiencies. Although departments said they had the opportunity during the second validation to revise those work descriptions, all incumbents and their managers could not verify their accuracy and completeness. In addition, the departments themselves were still learning the Standard.

22.57 The Secretariat performed a thorough qualitative and quantitative analysis of the revised evaluation results, using outside consultants, to assess the universality of the Standard Version 1.1. This led to added minor improvements, and Version 2.0 was released (Exhibit 22.2).

Some departments were concerned about the consistency and reliability of interdepartmental ratings.

22.58 In March 1999, the Secretariat considered that the Standard was not perfect but was "good enough" to be released, given that most of the planned "functionality" had been tested and proved to be working. In August 1999, the Secretariat said it had strong evidence to indicate that the Standard had achieved its objectives of universality and gender neutrality. In our opinion the Secretariat could not demonstrate this convincingly, given the weaknesses of the 5,000-position sample, the poor quality of the data and work descriptions, and the "ideal test bed" in which the second validation was conducted. In our opinion, based on the work the Secretariat had done, it should have more strongly qualified its statement and not concluded that the Standard met the objectives.

In our opinion, based on the work the Secretariat had done, it should have more strongly qualified its statement and not concluded that the Standard met the objectives.

22.59 In September 2000, the Secretariat did qualify the results of the validation more prudently. It indicated that the Standard was a vast improvement over previous classification systems and that it had significantly improved reliability while reinforcing the design goals of universality and gender neutrality.

Improving the Application of the Standard

Additional quality assurance measures after validation

The Secretariat developed a rigorous and exhaustive model for analyzing the evaluation results, and it undertook activities to improve the quality of application.

22.60 In reviewing position evaluation results submitted up to January 2000, the Secretariat and departments noted several potential anomalies. The Secretariat developed a rigorous and exhaustive model for analyzing the position evaluation results, and it undertook activities to improve the quality of application of the Standard. The goal was to diagnose the causes of the potential anomalies and decide on appropriate corrective action.

22.61 According to the Secretariat's records, about half of the departments and three unions participated in workshops offered by the Secretariat and designed to review some 30 occupational groups. Following the workshops, the Secretariat issued further technical guidance to clarify the Standard and provide for its consistent interpretation. In our opinion, the Secretariat needs to consider expanding this process to the remaining occupational groups, given that the objective is universality.

Departments took seriously the need to improve the quality of the position evaluation results

22.62 Our interviews with departments, our review of the files showing how the Standard had been applied after the evaluation of the 5,000-position sample, and the responses to our short questionnaire administered in September 2000 showed increased efforts to pursue and improve the application of the Standard. For example:

- In most cases the training activities were continued.
- Most departments told us they had applied the methodologies developed by the Secretariat to write and evaluate work descriptions. Some said they had developed other tools, adapted to their own needs, that had not necessarily been validated by the Secretariat. But they considered that in doing so they had observed the same principles.
- Although the level of mastery of the Standard has improved, interpreting it consistently in departments is a constant challenge because of the high turnover among members of departmental evaluation committees.
- All departments told us that because of the many changes to the Standard and the anomalies that surfaced, they have carried out a critical review of the work

Exhibit 22.2

Factors and Elements of the Universal Classification Standard 2.0

***Responsibility Factor* measures responsibility for people, ideas, and things.**

Elements:

1. ***Information for the Use of Others*** measures the extent and impact of responsibility for information that is used by others.
2. ***Well-being of Individuals*** measures direct responsibility for supporting the health and development of individuals and for helping them to function better in their environment and in Canadian society. This responsibility includes protecting them from harm and providing for their welfare.
3. ***Leadership of Human Resources*** measures responsibility for leading people who are working to achieve the goals of the Public Service of Canada.
4. ***Money*** measures responsibility in the work for the stewardship and comptrollership of financial resources. The responsibility falls into three areas: planning and controlling, acquiring funds, and spending funds. The element values these responsibilities according to the worker's latitude to take action and make decisions within the federal policies, guidelines, and regulations that govern the management of funds.
5. ***Physical Assets and Products*** measures direct responsibility for the custody, use, production, maintenance, repair, protection, and disposal of physical assets used, and products created, in doing the work. It also measures responsibility for making arrangements for facilities, equipment, and materials for conferences and events. Both purpose and impact are measured.
6. ***Ensuring Compliance*** measures the responsibility in the work for making decisions about compliance with government-accepted standards, guidelines, regulations, and legislation and for taking appropriate action to foster and enforce such compliance.

***Skill Factor* measures what employees need to know or be able to do in order to perform the assigned work.**

Elements:

7. ***Job Content Knowledge Application*** measures the depth and breadth of the knowledge required to perform the work. Knowledge includes concepts, methods, practices, principles, procedures, processes, techniques, and theories. Knowledge can be acquired through training, education, or experience, or it can be the result of a natural ability.
8. ***Contextual Knowledge*** measures the degree to which the work requires knowledge of people, organizations, external circumstances, and legislation and regulations.
9. ***Communication*** measures the skills required in the work to convey and receive messages. Both communication in (receiving) and communication out (conveying) are measured.
10. ***Motor and Sensory Skills*** measures the proficiency that the work requires in controlling body movements and in using the senses to make distinctions.

Exhibit 22.2 (cont'd)

***Effort Factor* measures the mental and physical exertion required by the work.**

Elements:

11. ***Intellectual Effort*** measures the mental exertion associated with solving the problems encountered in the work. Both intensity of effort and constraints on resolving problems are measured.
12. ***Sustained Attention*** measures the effort required by the work to focus one or more of the senses. It also measures the sensory effort to remain attentive, sometimes to things that do not appear to be changing. Both intensity of effort and degree of distraction are measured.
13. ***Psychological/Emotional Effort*** measures the mental exertion required to cope with psychologically demanding work. Both intensity of effort and degree of control are measured.
14. ***Physical Effort*** measures the amount of physical exertion required by the work. It recognises the effort involved in both movement and stillness. Both the intensity of effort and duration (amount of time) are measured.

***Working Conditions Factor* measures the physical and psychological conditions under which the work is performed, and their potential effects on the health of employees.**

Elements:

15. ***Work Environment*** measures the exposure to disagreeable psychological and physical work environments. Both the psychological environment and the physical environment of the work are evaluated.
16. ***Risk to Health*** measures the exposure to unavoidable mental and/or physical risks or hazards to health resulting directly from the performance of work. This element captures only those risks remaining after the application of normal safety precautions.

Source: Universal Classification Standard, UCS 2.0, Factors and Elements, Treasury Board of Canada, Secretariat, October 1999.

descriptions written and the position evaluation results since validation began.

- Departments took into account the supplementary guidance that the Secretariat provided for interpreting the Standard. In response to our questionnaire, all departments said they have used the tools the Secretariat provided between February and August 2000, even though they arrived late in the review process. According to departmental representatives, in September 2000 there was still a lot of work to be done to integrate the changes required by the supplementary guides.
- In September 2000, the majority of departments we visited indicated varying degrees of satisfaction with the quality of their work descriptions and the accuracy of the evaluation of positions they consider finalized. The others preferred not to express an opinion but described the measures they have put in place to ensure sound results. Some departments were concerned about other issues, such as the consistency and reliability of interdepartmental ratings.
- All but two of the departments we visited believed that the quality control mechanisms they have put in place over recent months provide them with a high level of assurance that the position evaluation results they consider finalized are valid and reliable.

Departments call the Universal Classification Standard a promising job evaluation tool

22.63 We asked each of the departments we visited to indicate, based on the knowledge and experience they acquired in using the Standard, if this job evaluation tool had enabled them to value all positions. The six departments that responded directly to this question replied in the affirmative. They said that the Standard can properly value the full range of work in the department. The other two departments made no direct assessment. Some departments expressed concerns about the value of some specific jobs under the Standard and the compensation offered in the external labour market.

The Secretariat is taking further steps to ensure the Standard's adequate application

22.64 In our interviews with all stakeholders, including the Canadian Human Rights Commission, and in comments received from some unions, a concern has emerged about the ability of the Treasury Board Secretariat to demonstrate that departments have adequate quality control mechanisms in place and have applied the Standard appropriately and produced valid position evaluation results.

22.65 As we were writing this chapter, the Secretariat had already started initiatives to ensure the Standard's adequate application. For instance, the Secretariat commissioned an audit of work descriptions of 1,000 positions. The audit is intended to examine the apparent degree to which departments have adhered to the Secretariat guidelines and also to assess the position content validity of the work descriptions. In addition, the Secretariat was developing a methodology for a qualitative assessment of the Standard's application; this was in the preliminary stages. This is aimed at examining the consistency and appropriateness of the Standard's application within particular occupational groups.

22.66 In our opinion, it is critical for the Secretariat to have confidence in the quality of position evaluation results with the Standard, for all occupational groups.

22.67 The Secretariat is also planning to perform periodic assessments of the Standard's application in departments. These assessments are intended to identify, through quantitative analyses, indicators of the adequacy or potential anomalies of the position evaluation results before the conversion. The Secretariat is planning to conduct further qualitative analyses based on these indicators.

The Secretariat commissioned an audit of the work descriptions for 1,000 positions.

An opportunity for the Secretariat to demonstrate to what extent the Standard achieves its objectives

22.68 The Secretariat's initiatives we have described are necessary and relevant to fill the gaps identified by the two validation exercises. In our opinion, the Secretariat has a great opportunity to conduct robust testing and to demonstrate convincingly to stakeholder groups the extent to which the Standard meets its objectives.

The Secretariat has a great opportunity to conduct robust testing and to demonstrate convincingly to stakeholder groups the extent to which the Standard meets its objectives.

Weighting the Standard's Elements

A preliminary weighting scheme was developed

22.69 In fall 1999, while the departments were evaluating positions, the Secretariat was developing the weighting scheme for the Standard.

22.70 Weighting is the percentage assigned to each element in a classification standard to establish the relative importance of all the elements in order to reflect the organization's objectives and values. These values must be free of gender bias in order to comply with the requirements of the *Canadian Human Rights Act.*

22.71 Given the sensitive and subjective nature of the exercise, to establish the weighting the Secretariat set up an ordered and systematic process that enabled it to obtain the views of all the stakeholders, from various perspectives. For example, it created a forum for a group of current and former senior officials and employees where they could discuss the importance of each element in the Standard and then to establish the hierarchy of elements that they thought best reflected public service values. The design team also produced a ranking based on the intent of the Standard.

Converting the existing classification of positions to the new system will inevitably cause disruption, no matter how perfect the new system may be.

22.72 Based on interim data, the Secretariat then developed a number of scenarios for weighting the elements of the Standard to determine the hierarchy that would be most acceptable to all stakeholders. Initially, criteria for this decision included several variables, among them the requirements of the *Canadian Human Rights Act,* the impact of the position evaluation results on the organizational structure, and the degree of organizational disruption implied.

22.73 Through consultation with departments, unions and the Canadian Human Rights Commission, the Secretariat was trying to achieve a balanced scheme that would assign a value to all work in the public service, unlike the weighting scheme proposed in 1996.

22.74 The Secretariat recognizes that before approving a final weighting scheme, it must conduct the necessary analyses using current data that are reliable and accurate. It will do so once the departments have finished evaluating all their jobs. We would support this course of action.

The Challenges Ahead

Converting the existing classification of positions to the new classification system will be a critical challenge

22.75 Position classifications will be converted to the new classification system from an imperfect, outdated system designed on the basis of values and principles of work organization that are almost 40 years old.

22.76 Conversion means that all employees in the future will be able to easily compare the value of their positions, which they could not always do before. However, comparing the value of positions under the new Standard with their value in the existing system could produce misleading results. No one has a precise idea of the magnitude of errors and anomalies in the present classification of positions. The last internal audit of classification was performed over 10 years ago. Even then, many jobs were found to have been misclassified.

22.77 Converting the existing classification of positions to the new system will inevitably cause disruption, no matter how perfect the new system may be, and this is even more predictable in an organization the size of the public service. The Standard will introduce new values, and the results will lead to changes in the organizational hierarchy.

22.78 The conversion will involve costs that are difficult to determine now with any certainty. A number of issues that will affect the costs of conversion still need to be resolved, such as negotiations with unions and establishment of the pay structure. At present, we do not know if the Secretariat has a compensation policy that defines the relative importance of internal equity, external equity, individual or group performance pay or other pay incentives and defines the relationships among them. Establishing a compensation policy from the perspective of strategic human resource management will be a critical and essential element in successfully implementing the new system.

Conditions for success

22.79 A lot of work has been done so far in departments to implement the Standard in order to convert their jobs to it. At the end of our follow-up in September 2000, we asked the eight departments we visited, and some unions, what they believed could be the Standard's key conditions for success. According to them, success would depend on conditions such as the following:

- due regard given to the results of the gender neutrality assessment of the Standard conducted by the Canadian Human Rights Commission, and the update and consolidation of all the tools developed by the Secretariat or specific occupational communities to ensure that the Standard is complete, free of gender bias and universal, and provides for consistent and adequate interpretation of all elements of the Standard;

- consultation and agreement with departments on the timelines needed to ensure that the work is done well. Several departments and unions believe they need more time, given the nature and the impact of such a project on the whole public service. Many indicated that there is still a lot of work to be done to ensure that positions evaluation in departments produces adequate results;

- monitoring by the Secretariat of the Standard's application in departments, and solid testing based on valid data to demonstrate persuasively the degree to which the Standard's objectives are achieved;

- ability of managers to demonstrate to employees that the Standard has been applied consistently in their department and across departments and for all occupational groups;

- determination of acceptable pay levels that enable departments to recruit and retain competent people, and minimization of the number of positions with salary protection upon conversion. This is needed to hold organizational disruption to a manageable level; and

- leadership by the Secretariat with a clear communications plan and strategy for managing change. This will help to enlist departments and unions in the critical buy-in of the new system and ensure that the impact on individuals and the organization is well understood.

22.80 We believe that the effective and efficient completion of the Universal Classification Standard project requires that reasonable and realistic financial resources be approved and allocated. We expect the Secretariat and departments to report the full cost of this project.

22.81 The Treasury Board Secretariat should continue to verify that the departments and agencies are implementing the Standard appropriately, that work descriptions are accurate and complete, and that evaluation results are valid and defensible. Departments should continue with diligence and on a reasonable timetable to evaluate or revise all of their job descriptions.

22.82 The Treasury Board Secretariat should perform all necessary analyses based on a valid sample and on accurate, up-to-date data to establish whether the Standard has reasonably achieved its objectives. If it has not, the Secretariat should take the necessary corrective measures.

Treasury Board Secretariat's response: *The Treasury Board Secretariat agrees with and accepts the recommendations in the chapter. Monitoring of departmental application results will continue. We are confident that our increasingly robust qualitative and quantitative testing methodologies will continue to reinforce confidence in the Universal Classification*

Among the key conditions for the Standard's success are determining acceptable pay levels that enable departments to recruit and retain competent people and minimizing the number of positions with salary protection upon conversion to the Standard.

Standard as a job evaluation plan that measures all work in the public service and appropriately respects the Canadian Human Rights Act. *This testing will also continue after implementation to ensure that the Standard continues to meet the needs of the public service as they change over time.*

Conclusion

22.83 The development of a new Universal Classification Standard has made a great deal of progress since May 1996. There is no doubt that as a job evaluation tool, the Standard is an enormous improvement over the existing classification system. The process the Treasury Board Secretariat has followed is significantly more rigorous than we observed in our 1996 audit.

22.84 The departments we visited strongly support the Standard. However, they recognize that they need to do more work to ensure that results are of good quality before they fully implement the new system.

22.85 In our opinion, the Secretariat needs to conduct further rigorous testing to demonstrate to stakeholder groups the extent to which the Standard has achieved its objectives. It needs to continue conducting thorough and systematic analyses, based on valid and reliable data.

About the Follow-up

Objectives

The objective of our chapter was to assess the extent to which the Treasury Board Secretariat has implemented our 1996 recommendation (Chapter 5, May 1996 Report) that addressed the development and validation of the Standard.

Our other 1996 recommendations for simplifying the job evaluation system and the occupational group structure were not covered by our follow-up.

Scope

We reviewed the important documentation used in developing and validating the design of the Standard and participated as observers in committees set up by the Secretariat at various stages of the project.

Between March and June 2000, we studied how eight departments had applied the Standard. We selected eight departments that differed in mission, size and composition. They represented about 40 percent of jobs in the public service and just over 80 percent of occupational groups. We held structured interviews and reviewed progress reports supplied by departments to the Secretariat, as well as other relevant documentation.

We also participated in discussions of technical and operating issues with such stakeholders as the Canadian Human Rights Commission (CHRC), the unions, and pay equity experts.

Finally, in September 2000 we used a short questionnaire to update our observations on the eight departments we visited.

Criteria

The criteria used in this audit took into account the government's objectives for the Universal Classification Standard and were drawn from the best practices in the field of job evaluation:

- the method used for collecting information on job content in public service jobs is valid, reliable, credible and free of bias, with appropriate quality control mechanisms to permit the collection of information on all significant job content, including work associated with women's work that is often overlooked;
- the sample of jobs used to gather information on job content is adequate and credible, with adequate gender representation;
- the various components of the Standard are reviewed to ensure that they can effectively capture and properly value all the significant job content found in the public service, including that associated with women's work. This should include ensuring that:
  - all components of the Standard are clearly defined and measure unique aspects of work to the extent possible;
  - the progression from minimum to maximum value in each element is clear; and

  - illustrations intended to assist raters provide a reasonable spectrum of job content, do not undervalue work performed by women and are consistent with the definitions and the desired progression in value;

- the weight allocated to each element is appropriately distributed to permit the valuation of all jobs, including work performed by women, on a fair and equitable basis while giving proper recognition to the objectives and values adopted for the public service and the reform; and
- thorough testing, on a valid sample, of the validity, reliability and gender neutrality of the Standard is carried out with adequate quality control measures and, if necessary, review and additional testing before implementation.

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Report of the
Auditor General of Canada to the House of Commons – 2000
Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6
5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter

15 Health Canada – First Nations Health: Follow-up

Other Observations

16 Follow-up of Recommendations in Previous Reports
17 Other Audit Observations

Volume 3 – December 2000

Chapter

Matters of Special Importance – 2000
Foreword and Main Points

18 Governance of Crown Corporations

19 Reporting Performance to Parliament: Progress Too Slow

20 Managing Departments for Results and Managing Horizontal Issues for Results

21 Post-Secondary Recruitment Program of the Federal Public Service

22 Development of the Universal Classification Standard: A Follow-up

23 Information Technology: Acquisition of Goods and Services

Protecting Health and Safety

24 Federal Health and Safety Regulatory Programs
25 Canadian Food Inspection Agency – Food Inspection Programs
26 Health Canada – Regulatory Regime of Biologics
27 Canadian Nuclear Safety Commission – Power Reactor Regulation
28 Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

29 Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

30 Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

31 Fisheries and Oceans – Fleet Management

32 National Defence – Defence Support Productivity: A Progress Report

Other Observations and Appendices

33 Follow-up of Recommendations in Previous Reports
34 Other Audit Observations

35 Sustainable Development Strategy for the Office of the Auditor General

Report of the
Auditor General
# of Canada
to the House of Commons

Chapter 23
Information Technology: Acquisition of Goods and Services

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

© Minister of Public Works and Government Services Canada 2000
Cat. No. FA1-2000/3-23E
ISBN 0-662-29586-2
Copies françaises aussi disponibles

Chapter 23

Information Technology

Acquisition of Goods and Services

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 23-5

Introduction 23-7

Acquisitions are made in a highly complex environment 23-7
Focus of the audit 23-8

Observations and Recommendations 23-8

Analyzing Information Technology Expenditures in Government 23-8
Government-wide data are not available 23-8

Procuring Large Information Technology Projects 23-9
New framework and approach developed to improve results 23-10
Few projects are available for review but new concepts are being used 23-11
Outcomes are not definitive but results to date are encouraging 23-14
Challenges remain in future procurement for large projects 23-15

Acquiring Software, Microcomputers and Equipment for Local Area Networks 23-17
Method of supply of microcomputers and products related to local area networks has been established to provide value for money 23-17
Opportunities exist for more cost savings 23-18
Standing offer arrangements for commercial software licences and solutions were discontinued as a result of bid challenges 23-19
The procurement instrument for replacing software standing offers experienced delays and did not provide an adequate solution 23-20

Complying With Delegated Authority 23-22

Addressing Bid Challenges and Resolving Disputes 23-22
Few contracts have been challenged 23-23
Several key cases involved procurement of software licences 23-23
The cases have significant implications for the government 23-26

Looking Ahead to Government On-Line 23-28

Conclusion 23-28

About the Audit 23-29

Exhibits

23.1 Information Technology Expenditures Are Significant and Rising 23-9
23.2 Spending on Information Technology by Departments and Agencies 23-10
23.3 Acquisition Phase of Two Large Information Technology Projects and the Year 2000 Supply Arrangement – Summary 23-13
23.4 Low-Volume Purchases Dominate 23-18
23.5 The Contract Challenge Process at the Canadian International Trade Tribunal 23-24
23.6 Complaints Filed With the Canadian International Trade Tribunal, 1995 to 1999 23-25

Information Technology

Acquisition of Goods and Services

Main Points

23.1 In auditing acquisition activities (procurement) for large information technology projects in the government, we found that two recent acquisitions followed some essential elements of a procurement approach and project management framework designed to improve large technology projects. The approach emphasizes the benefits to be derived from a project, rather than focussing on a specific solution to a business problem. Although both projects are still in the construction phase, they have progressed and delivered as planned. While full implementation and deployment of the new systems are not assured, the results to date are encouraging.

23.2 We found, however, that the acquisition activities still spanned 18 months or more. The government needs to improve the timeliness of those activities to adequately support its objective of putting government on-line by 2004.

23.3 We also examined the acquisition process for the routine supply of microcomputers, equipment for local area networks and software. We found that the government has yet to finish replacing its discontinued method of supply for routine, low-volume purchases of software licences and software solution services. As a result, user departments and agencies do not have a ready, prenegotiated means for low-value purchases of certain software products and services.

23.4 We also found that the replacement method as developed thus far is inadequate, and there is still a risk that the government will continue to acquire installed bases of software on a piecemeal and non-competitive basis. Where user departments and agencies have done so, the government can become vulnerable to the filing of complaints with the Canadian International Trade Tribunal in relation to contracts that extend the use of the software to the entire department or involve department-wide maintenance and upgrade of the software.

23.5 Acquiring software licences and software solution services appropriately continues to be a challenge. The government needs to consider a strategy for acquiring software as a technology investment.

Background and other observations

23.6 Our data analysis showed that the significant expenditures involved in the acquisition of information technology (IT) goods and services have been on the rise. We estimated that in 1998–99, spending on IT amounted to about $3.4 billion, including salary costs.

23.7 The method of supply for routine, low-volume purchases of microcomputers and products related to local area networks has merit and adds value to the acquisition process. Nevertheless, in our view there are opportunities for cost savings of about $10 million a year by taking more advantage of consolidated purchases.

23.8 Our audit looked at eight user departments and agencies. We conducted a test of their compliance with the procurement authority delegated to them. We found a few minor deviations but no indication of blatant or widespread misuse of delegated authority.

23.9 Recent determinations by the Canadian International Trade Tribunal (CITT) were the main reason for changing the standing offer method of supply for routine, low-volume purchases of software licences and software solution services. Moreover, even though CITT cases have been few, government users and the IT community have indicated that they have generated intense scrutiny of all technology acquisitions in government in order to avoid potential complaints to the Tribunal. In our view, there is a need to better respect the government's contracting objectives — meeting operational requirements with due regard to value for money while also respecting the principle of open and fair competition by complying with government regulations and trade agreements.

The government is generally supportive of the recommendations contained in the chapter.

Introduction

Acquisitions are made in a highly complex environment

23.10 The acquisition or procurement of information technology (IT) goods and services in the government is a large and complex business. In recent years, the government has made major investments in information systems and technology to support the delivery of programs and services to Canadians. Its acquisitions range from small volumes of low-cost goods to large purchases for multi-year development projects that integrate IT goods and services from different suppliers.

23.11 Unlike the private sector, the government must follow many rules and regulations in its acquisitions, including its purchases of IT goods and services. Principal among them are the contracting policy, the Treasury Board Contracts Directives, the Government Contracts Regulations (pursuant to the *Financial Administration Act*) and the Supply Manual.

23.12 The Treasury Board Secretariat is responsible for the government's contracting policy. Public Works and Government Services Canada (PWGSC) acts as the contracting authority for most government acquisitions and is in charge of the Supply Manual — the procedural manual for its supply activities. Government acquisitions are also subject to multilateral and federal-provincial trade agreements: the *North American Free Trade Agreement*, the *World Trade Organization–Agreement on Government Procurement,* and the *Agreement on Internal Trade*. The Canadian International Trade Tribunal, an administrative tribunal, conducts inquiries into complaints by potential suppliers about government procurement actions, where they are covered by the trade agreements.

23.13 The contracting policy states:

> The objective of government procurement contracting is to acquire goods and services and to carry out construction in a manner that enhances access, competition and fairness and results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and the Canadian people.

Policy statements further underscore the pre-eminence of operational requirements; the ability to withstand the test of public scrutiny; support for industrial and regional development and other appropriate national objectives; and compliance with the government's obligations under trade agreements.

23.14 At the user level, buying IT goods and services can involve several groups of staff in a government department. The acquisition process generally involves the users — program managers with operational needs to be met — and those IT staff who have knowledge of and expertise in technology matters as well as those who may be affected directly by the acquisition of a particular technological solution. It may also involve corporate services staff engaged in materiel management or representing the department's contracting authority. In departments where operations are highly decentralized, additional groups may be involved.

Users sometimes find themselves with problems whose solutions are difficult to anticipate or fully understand at the time of procurement.

23.15 The government's procurement environment, already complex and involving many stakeholders, is complicated further in the field of information technology. Information technology evolves at a very rapid pace. New products and technological solutions are constantly being developed. Users sometimes find themselves with problems whose solutions are difficult to anticipate or fully understand at the time of procurement. Moreover, current acquisitions often involve major investments and can have significant implications for choices of technology in the future.

23.16 In this complex environment, the government is challenged to meet operational needs with a solution that provides best value while enhancing access, competition and fairness in its IT procurement activities.

Focus of the audit

23.17 The objective of our audit was to assess the extent to which IT acquisitions in the federal government meet policy objectives while giving due regard to efficiency and economy.

23.18 The audit focussed on the acquisition process and activities for large IT projects and for the routine supply of microcomputers, equipment for local area networks, and software. As it is discussed in this chapter, the process starts when users identify an operational need and ends when a contract has been awarded and any challenges to the award have been resolved.

23.19 We analyzed data on IT expenditures to understand the extent and the nature of IT acquisitions in government. We reviewed the processes, methodology and tools that have been established to facilitate IT procurement activities, and we looked at procurement cases that demonstrated their use.

23.20 We conducted interviews at the Treasury Board Secretariat, PWGSC, the Canadian International Trade Tribunal and eight departments and agencies, where we also examined cases of IT acquisitions to support and illustrate potential issues. We examined several IT acquisitions that had resulted in challenges before the Canadian International Trade Tribunal.

23.21 Further information about the audit objective, scope and criteria can be found at the end of the chapter in **About the Audit**.

Observations and Recommendations

Analyzing Information Technology Expenditures in Government

Government-wide data are not available

23.22 To better understand the acquisitions of IT goods and services, we asked for information on IT expenditures incurred by the government. From our discussions with the Treasury Board Secretariat and Public Works and Government Services Canada, we learned that data are not specifically coded as IT expenditures and thus are not aggregated. While the Secretariat annually reports on total contracting in government, no reporting on government-wide IT acquisitions is available. (The subject of contract reporting is addressed in Chapter 29 of this Report.)

23.23 In the absence of such information, we set out to analyze IT expenditures government-wide and by department as well as by type of goods and services acquired. Our analysis also included a general estimation of payroll costs in support of IT development and operations. The analysis spanned four fiscal years, from 1995-96 to 1998-99.

23.24 Based on expenditure data from the Public Accounts of Canada, we estimated a rough order of magnitude for IT-related expenditures other than payroll by using selective codes of economic object. To estimate IT-related payroll expenditures, we used portions of salary and employee benefit costs, by pay classification, from data provided by the Public Service Commission. We also sought input from the Treasury Board Secretariat in making our estimates.

23.25 Our estimation was conservative in nature. For example, we did not attempt to include expenditures coded for specialized work such as constructing satellites or other highly sophisticated equipment, like weaponry systems.

23.26 Our analysis confirmed that IT expenditures are significant and rising. Exhibit 23.1 shows that IT expenditures increased from almost $3 billion in 1995-96 to about $3.4 billion in 1998-99, or by almost 14 percent. During the same period, spending on IT as a proportion of total budgetary expenditures for government operations increased from 8.6 percent to 10.1 percent.

23.27 Our analysis also showed that four departments, each with annual IT spending of more than $100 million, accounted for about 60 percent of the total expenditures on IT in the government. Departments and agencies with moderate IT expenditures (from $25 million to $100 million a year) accounted for almost 30 percent of the total. Exhibit 23.2 shows IT expenditures of departments and agencies by category of large, moderate or small amount spent in the past four years. In summary, about 20 departments with the highest spending on IT accounted for roughly 90 percent of the government's total IT expenditures.

23.28 We also set out to analyze IT expenditures by type of purchase, such as hardware, software, professional services, and telecommunication products and services. However, because departments and agencies were inconsistent in the way they applied economic object codes and coded their expenditures for large IT projects, it was not feasible to complete that analysis in a meaningful way.

Procuring Large Information Technology Projects

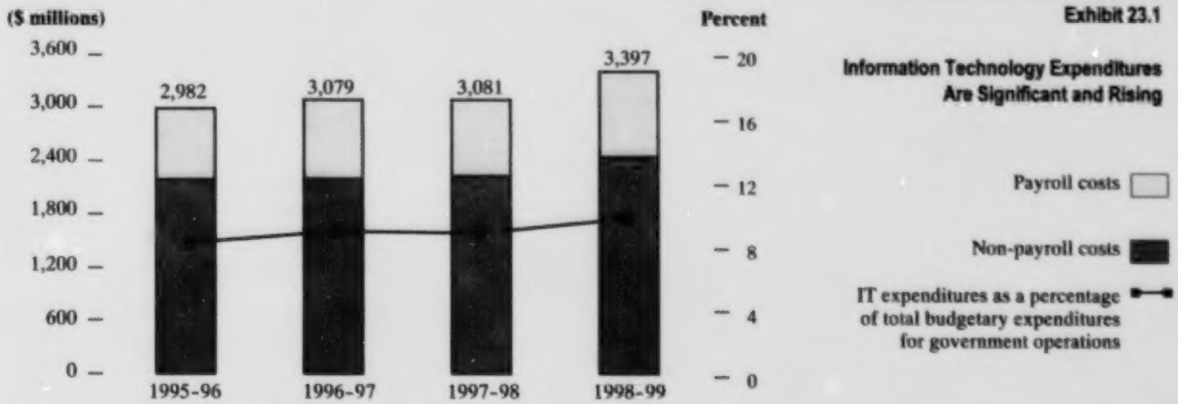
23.29 Large projects to develop information systems as business solutions often meet with failure to varying degrees, from not meeting business needs fully to not delivering and implementing the systems on time, to incurring excessive costs. This general observation was supported by our audits of government systems under development that we reported to Parliament in 1995, 1996 and 1997.

Information technology expenditures are significant and rising.

23.30 Past research has shown that there are a number of major factors that cause projects to fail. The acquisition phase and the related procurement activities are one such factor. At that time, the process of procurement for large IT projects typically resulted in multi-year, fixed-price contracting. The contracts would include detailed specifications and requirements, and the lowest bidder, based on a combined evaluation of technical merits and price, would be awarded the contract.

Exhibit 23.1

Information Technology Expenditures Are Significant and Rising



Source: Receiver General and Public Service Commission

New framework and approach developed to improve results

23.31 In 1996, PWGSC undertook to develop a new procurement methodology that would address some of the shortcomings of the existing approach to large and complex IT acquisitions. The Department collaborated with the Treasury Board Secretariat, representatives of user departments and agencies, and industry associations representing suppliers. In March 1997, PWGSC released the second version of the Benefits Driven Procurement (BDP) approach as a solution for the acquisition phase of large IT projects.

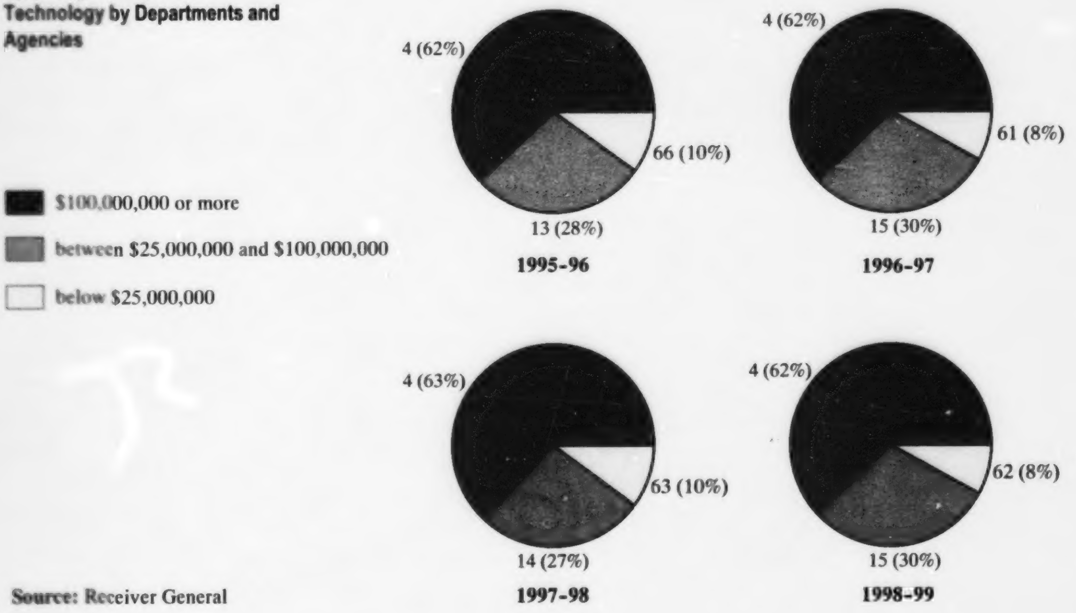
23.32 The BDP approach emphasizes the results and benefits to be derived from a project, rather than emphasizing a specific solution to a business problem. Thus, it focusses on making a strong business case. Instead of the detailed specifications and requirements of a solution, the approach highlights the benefits that the solution will provide. The project is delivered in phases that provide "off-ramps" — opportunities to halt the project, if appropriate. Compensation is based on performance, usually at the completion of defined tasks. In addition, BDP supports clear accountability by all parties to the contract, and sound project management disciplines that include rigorous identification and management of risk. Since its development, the approach has been recommended for use in procurements for large and complex IT projects.

23.33 The BDP approach is fully consistent with the Enhanced Management Framework (EMF) for managing large IT development projects. The Treasury Board Secretariat developed the EMF in 1995 to address weaknesses that we had identified in our audits of systems under development. The elements of BDP, such as the requirement for a strong business case with periodic updates and the emphasis on up-front planning, are also key elements of the Framework.

Exhibit 23.2

Spending on Information Technology by Departments and Agencies

Number of Departments and Agencies (percentage of total IT expenditures)



Source: Receiver General

Few projects are available for review but new concepts are being used

23.34 With the development of the EMF and the BDP approach, we would expect current acquisitions for large IT projects to apply their essential elements.

23.35 We set out to identify large IT acquisitions made in the past few years in order to select a sample for review. However, meetings with officials of the Treasury Board Secretariat, PWGSC and the selected user departments revealed that except for two major initiatives, few large IT projects have been launched in recent years.

23.36 The Year 2000 computer problem was a top priority of the government for most of 1998 and 1999. Most systems development work was deferred in favour of remediation and testing of non-compliant systems and devices, especially those considered mission-critical. As a prudent measure, most departments, even after putting compliant systems in place, resisted making changes in their systems to avoid any risk that their computer environment would be non-compliant for Year 2000 as a result. At the same time, departments and agencies were also converting their financial systems or implementing new systems to meet the requirements of the government's Financial Information Strategy by its 2001 deadline. We have audited the Strategy in the past and will be conducting more audits of it in the future.

23.37 We focussed this audit on large IT projects that are using the concepts and elements of the newly developed approach and framework. Aside from IT work related to Year 2000 and the Financial Information Strategy, very few large IT projects have been undertaken in the last two years. Nevertheless, we identified two recent large IT acquisitions — Export and Import Controls System and Materiel Acquisition and Support Information System — and reviewed their acquisition phase. The Year 2000 omnibus contract has been cited as an example of another procurement strategy. We conducted a limited review of that procurement.

23.38 The Export and Import Controls System (EICS) project at Foreign Affairs and International Trade was designed to support the Department's control over export and import activities under the *Export and Import Permits Act*. It was intended to replace two existing systems that were becoming obsolete, and to provide interfaces with key stakeholders in industry and in other government entities.

23.39 National Defence had earlier made a number of attempts to optimize the availability of its equipment and weaponry systems. The Materiel Acquisition and Support Information System (MASIS) project in its current form is aimed at optimizing their availability throughout their life cycle. It is meant to provide an integrated environment for Canada's Air, Land and Marine Forces and the Department's administrative units, to replace the separate information systems that have managed and supported the military equipment and weaponry systems of each Force.

23.40 The "Year 2000 omnibus contract" was an initiative to ensure the availability of skilled technical resources for Year 2000 remediation, testing and implementation work. Under the initiative, seven contracts were awarded and they formed a supply arrangement for departments and agencies. The arrangement guaranteed an overall minimum business volume to the suppliers. The initiative initially applied only to work on systems that support government-wide mission-critical functions. It was later extended to cover systems that support departmental mission-critical functions. The supply arrangement was established for work on all mission-critical systems.

23.41 The two IT projects are in various stages of implementation. The Year 2000 contracts expired in June 2000. Exhibit 23.3 summarizes the acquisition phase for the two projects and provides selected information on the Year 2000 contracts.

23.42 Developing a business case. The business case is a cornerstone of successful implementation of large, complex IT projects. Developing a strong business case is at the core of the Benefits Driven Procurement (BDP) approach and is a key element of the Enhanced Management Framework (EMF). Both IT projects we looked at developed comprehensive business cases.

The business case is a cornerstone of successful implementation of large, complex IT projects.

23.43 The business case for the Export and Import Controls System (EICS) project identified the desired outcomes and benefits that the project was to deliver. It related those benefits to the mandate of Foreign Affairs and International Trade and to the program direction of the Export and Import Controls Bureau. The business case also contained an analysis of several potential solutions to the business problem, including their long-term costing implications. The rationale for the recommended solution was also documented.

23.44 The Materiel Acquisition and Support Information System (MASIS) project was supported by a business case that described the re-engineering challenge and the benefits of integrating information systems maintained at the time by separate Forces and administrative units. The business case has been reviewed as the project has developed, and adjustments have been made as appropriate. All "off-ramp" decisions, new tasks and changes in scope are governed by the business case. It is also the basis for assessing performance.

23.45 Using a phased approach. By breaking a project down into phases, the BDP approach provides checkpoints for deciding whether the benefits accruing to end users can no longer justify a further investment of resources. Both projects used a phased approach with successive off-ramps. In addition, both departments used the first phase of the project to develop the strategy for the business solution and to define the development and construction phase of the project. Both projects emphasized the overall benefits to be achieved, rather than defining detailed specifications and requirements at the outset.

23.46 For the EICS project, the Department contracted with a consulting firm to help prepare the request for proposals, including evaluation criteria. The project itself involved a definition phase and a construction phase. The contract for the definition phase ended in January 2000 with the successful completion of formal system requirements. The contract for the construction phase contains many tasks that are used as checkpoints, providing additional opportunities for either party to exit the contract if desired. Full deployment of the project is expected in April 2001.

23.47 For the MASIS project, National Defence began the formal acquisition process by releasing a draft request for proposal. The final request for proposal contained minimal functional specifications and it was expected that the IT industry would provide the solution. The contract for the first phase involved not only developing an overall system design and implementation plan but also replacing an obsolete system at the Department's workshop depot in Montreal with at least 30 percent of the functionality planned for the new system. The contract for the second phase deals with the construction and delivery of the full system. Deployment of the overall system involves incremental rollouts with off-ramps, and is expected to be completed by June 2004.

Exhibit 23.3

Acquisition Phase of Two Large Information Technology Projects and the Year 2000 Supply Arrangement – Summary

	Materiel Acquisition and Support Information System	**Export/Import Controls System**	**Year 2000 Supply Arrangement**
	• Integrated information system designed to enable the Navy, Army and Air Force to maintain and support their equipment and weapon systems more effectively • Based on commercial software and industry's best business practices in materiel acquisition and support processes • Expected cost $109.3 million	• Control system to support the control aspects of trade agreements, quota allocation policy and ministerial permit issuance • Interfaces with exporters, importers, Customs brokers, and Canada Customs and Revenue Agency • Expected cost $6 million	• Professional services contracts made available to departments for the provision of Year 2000 remedial solutions for mission-critical systems • Set up with 7 firms to speed up and facilitate the provision of needed IT professional services • Budgeted for a minimum $100 million
Milestone Activity			
Recommendation to develop a joint solution for all the Forces	October 24, 1994		
Request for proposal (for pilot project)	March 1996 (bids later rejected)		
Further consultations with industry and other countries	July to December 1996		
Decision to use Benefits Driven Procurement approach	January 19, 1997	Fall 1997	Fall 1997
Letter of interest or draft request for proposal, posted on MERX	March 1998	December 4, 1998	October 3, 1997
Request for proposal	June 26, 1998	January 27, 1999	November 7, 1997
Closing date	August 4, 1998	March 17, 1999	January 7, 1998
Supply arrangement contracts awarded to 7 firms			Early March 1998
First call-ups			June 1998
Completion			June 30, 2000
1st phase contract awarded:			
Initial solution	December 11, 1998		
Definition phase		May 25, 1999	
Completion	June 30, 2000	January 18, 2000	
2nd phase contract awarded:			
Full functionality solution	June 30, 2000		
Construction phase		December 24, 1999	
(Planned)			
Incremental rollouts with off-ramps	until April 1, 2004		
Final deployment		April 1, 2001	

Source: Department of Foreign Affairs and International Trade; National Defence; Public Works and Government Services Canada.

23.48 **Establishing governance and getting senior-level sponsorship.** Senior sponsorship and appropriate governance are key ingredients in successfully implementing large IT projects. We found aspects of both in the two projects that we reviewed. Moreover, there has been no turnover among the several senior officials who are responsible for the projects.

23.49 The Director General of the Export and Import Controls Bureau has served as the senior sponsor for the EICS project since the beginning. The project is guided by a steering committee, comprising senior departmental officials and a senior representative of the contractor firm. The respective roles and responsibilities of the Department and the contractor are stated in each of the two contracts.

23.50 For MASIS, the sponsor is a senior official of National Defence's Materiel Comptrollership and Business Management Directorate. The project manager is a senior officer of the Materiel Group and has been in that capacity since 1996. Internally, the project team reports to the MASIS Senior Review Board, which consists of senior staff from all three Forces, Defence Information Services, Logistics, and Engineering. An Executive MASIS Steering Committee oversees the project. The Steering Committee includes senior officials of all stakeholders — National Defence, PWGSC and the contractor firm.

23.51 **Managing the project and related risks.** Although it has not been identified as a key element of the BDP approach and the Enhanced Management Framework, an integrated team has been used to manage each of the two projects we reviewed. Integrated project management teams comprise staff of the department and consultants from the contractor firm. Use of the teams provides for flexibility and speed in making changes to advance the project or to mitigate risks.

23.52 The Integrated Project Management Office for EICS involves departmental officials with participants from the contractor firm. It is chaired by the project authority from the Export and Import Controls Bureau, and a senior official in the Department's Information Management and Technology Bureau is also a member. Each month, the Office updates a detailed risk analysis of the project and reviews the updated analysis to determine whether changes or additional actions are warranted. The contractor firm receives payment upon the successful completion of authorized tasks by the target dates. The contract also contains provisions for avoiding or resolving disputes.

23.53 In the case of MASIS, the requirement to use an integrated project team was stipulated in the Statement of Work for each phase of the project. In addition to providing for flexibility and quick action, the integrated team approach is expected to increase efficiency, improve communication and streamline management oversight. Like EICS, the MASIS request for proposal stated that a risk management plan was a requirement. Each phase of the project was broken down into a series of subprojects with defined tasks. Payments are subject to the successful completion of pre-authorized tasks. In addition to remedy clauses, the MASIS contracts provide for incentive conditions to be negotiated for superior performance.

Outcomes are not definitive but results to date are encouraging

23.54 Both EICS and MASIS are currently in the construction phase. Although full implementation and deployment are not assured, both projects have progressed and delivered as planned. At July 2000, they had met expectations on schedule and stayed within budgeted costs.

23.55 The first-phase contracts for the EICS and MASIS projects were successfully completed and formed the basis for the work under the second-phase contracts. The deployment of EICS is expected in April 2001, as planned. For MASIS, by September 1999 the first-phase contract had provided systems capability for 30 percent of functional requirements at the Department's workshop depot in Montreal. With incremental rollouts, full deployment of the project is expected by June 2004.

23.56 The nature of the Year 2000 contracts differed from that of the two systems development projects. Its purpose was to ensure the availability of skilled technical resources. It did so using a supply arrangement that featured a guaranteed minimum of $100 million in contract work among the seven successful bidders. Through the supply arrangement, a user department could select directly from the seven prequalified contractor firms and have PWGSC solicit work plans from them. By June 2000, when it ended, the supply arrangement had met expectations in providing skilled contract resources. The full guarantee had been exercised and there had been virtually no system failures. We also noted an important benefit — it provided a streamlined procurement process for contracting technical resources and allowed for their rapid deployment. The application of this supply arrangement was unique. Yet it serves as an example that could be adapted to benefit future procurement activities.

23.57 Our examination of the two large IT projects showed that many essential elements of the Benefits Driven Procurement approach and the Enhanced Management Framework can work and produce results. Analyzing experience from two projects is not sufficiently conclusive, and both projects have yet to be completed to demonstrate full success. However, experience in both EICS and MASIS to date has been encouraging.

23.58 In our view, the emphasis on front-end planning was an essential element in the positive outcome of the two projects to date. Its merit goes beyond serving as guidance and recommended procedure. It ought to be required as a general practice in procuring and developing large IT projects. The front-end planning included:

- focussing on business needs, defined in terms of program mandate and business outcomes, and not on the solution;
- breaking the project down into phases and tasks;
- obtaining the commitment and ongoing involvement of senior management;
- establishing a governance structure; and
- involving PWGSC early in the development of an appropriate procurement strategy.

In our view, the emphasis on front-end planning was an essential element in the positive outcome of the two projects to date.

23.59 The Treasury Board Secretariat and Public Works and Government Services Canada should analyze the experience of recent acquisitions and specify the practices that they will generally require of user departments and agencies in large information technology projects.

Government's response: *Treasury Board Secretariat and Public Works and Government Services Canada support the recommendation. We will continue to support the application of appropriate Enhanced Management Framework and Benefits Driven Procurement practices to large information technology projects.*

Challenges remain in future procurement for large projects

23.60 We have noted some positive aspects of using the new procurement approach and the project management framework. However, there are issues that still need to be addressed.

23.61 Technology advances at a rapid pace. New products with ever-increasing processing speed and capacity are constantly evolving. Moreover, the workplace changes continually, along with program requirements and operational needs. The longer it takes to acquire, develop and implement technological solutions, the higher is the risk that the business needs will change and the solutions become less beneficial and relevant. Long phases of acquisition and implementation also increase the risk that the acquired technology will become obsolete by the time it is deployed. Consequently, acquisition activities that require shorter time spans will add significant value to projects.

The longer it takes to acquire, develop and implement technological solutions, the higher is the risk that the business needs will change and the solutions become less beneficial and relevant.

23.62 We reviewed the chronology of activities of the two large projects and analyzed the time span of the acquisition activities. We found that they spanned periods exceeding 18 months. The EICS project needs were first analyzed in 1997 and the first phase contract was awarded in late May 1999. Prior to adopting the BDP approach, the need for MASIS had been identified and attempts had been made to develop it as early as 1994. The MASIS project in its current form was initiated in 1996 and its first-phase contract was awarded in December 1998.

23.63 The IT industry claims that processing speed doubles in 18 months, and it defines a Web year as three calendar months. Development and deployment of large IT projects are not expected to match this pace of change. However, the government still needs to find ways to reduce the time span of its acquisition activities in large IT projects.

23.64 In reviewing the procurement strategy for the Year 2000 omnibus contract, we noted that it provided an instrument for rapid deployment of contract resources, and its experience can benefit future procurement. But there are related factors that need to be considered when replicating this method of supply.

23.65 Year 2000 remediation was a unique project. The goal was to ensure that critical functions and operations would continue upon the arrival of 2000 and beyond. There was a degree of commonality in the resource requirements of user departments and agencies. That commonality facilitated the structuring of the supply arrangement. In large IT projects, there is no expectation of a natural tendency toward commonality. The challenge remains to define categories of technical resources for purposes of establishing a supply arrangement.

23.66 Another unique factor in the Year 2000 contracts was the cost. Since the purpose of the contract was to assure availability, successful bidders had to guarantee that they would make technical resources available if and when called upon. To retain staff who were in simultaneous demand worldwide, the rates of compensation and incentives had to reflect the North American marketplace for Year 2000 work. Consequently, contract rates were set at a premium and contractor firms were guaranteed a minimum of $100 million in work. As the government extends this procurement strategy to other acquisitions, rate negotiation will become an important factor in controlling costs and providing value for money.

23.67 Recent experience with acquisitions for large IT projects has been promising. However, the time entailed in the acquisition phase could become an impediment to the successful implementation of technology solutions that meet business requirements. The government needs to build upon the BDP approach to improve its acquisition activities, using the procurement process to advance and support large IT acquisitions.

23.68 **The government should work with the information technology industry to further develop its procurement approach for large,**

complex technology projects in a way that will improve its acquisition activities, particularly their timeliness.

Government's response: We support the recommendation and agree that we should work with industry to facilitate timely procurement for large and complex projects. We are currently doing so in pursuit of an optimal procurement strategy for the Government On-Line (GOL) requirements.

Acquiring Software, Microcomputers and Equipment for Local Area Networks

23.69 Standing offers are a procurement instrument used by PWGSC that allows user departments and agencies to order directly from suppliers. They provide a means to acquire goods and services at prenegotiated prices that remain in effect for a specified period of time. Standing offers are the preferred method for routine, low-volume supply of commercial off-the-shelf software, microcomputers and equipment for local area networks (LANs).

23.70 Within the limits of delegated authority, user departments and agencies can issue call-ups against a standing offer with a specific supplier, requesting the exact quantities of goods and services they require. Generally, when a call-up is made against a standing offer, there is no further negotiation of price and the supplier is obliged to meet the call-up requirement. To allow for the rapidly changing environment, a supplier is permitted to substitute listed products with improved or upgraded versions, provided they meet or exceed benchmarking requirements and are offered at the same or lower prices.

23.71 There are several different types of standing offer. The national master standing offer (NMSO) is the most common. The NMSOs are arranged by PWGSC to meet common needs of departments and agencies and to provide them with routine supplies. The NMSOs are arranged without requisitions from users. Regional standing offers are also used to satisfy needs within a specific geographic area. Furthermore, there are individual standing offers used to meet the needs of a single department or agency.

Method of supply of microcomputers and products related to local area networks has been established to provide value for money

23.72 Public Works and Government Services Canada has arranged national master standing offers for routine, low-volume purchases of microcomputers and LAN-related products, including desktop and notebook computers and servers. The standing offers are awarded competitively to suppliers that meet technical and benchmarking requirements. In order to qualify, the supplier must also offer a product at a price within a defined range of the average price submitted by other suppliers for products in the same category.

Standing offers are awarded competitively to suppliers that meet technical and benchmarking requirements.

23.73 In general, a user department can issue a call-up for desktop and notebook computers directly to a specific NMSO supplier, up to a maximum of $40,000. The limit for servers is $100,000 per call-up. Information on existing NMSOs is updated regularly on the PWGSC Web site, under its Computer Acquisition Guide. The site is open to public access to encourage competition among suppliers.

23.74 The NMSOs for desktop computers are the most heavily used. On a biweekly basis, PWGSC assesses products and identifies those that offer the lowest cost in each of the desktop categories, based on a combined evaluation of technical merits and price. The products with the lowest evaluated costs are posted on the Department's Web site. To encourage the use of those products, PWGSC raises their call-up limit from $40,000 to $100,000.

23.75 Standing offers are arranged to accommodate routine, low-volume purchases. To support larger-volume purchases, PWGSC provides user departments and agencies with an option to issue a request for volume discount (RVD) to NMSO suppliers on their listed prices. The RVDs can be used for purchases up to $10 million. They are processed on a competitive basis and are thus an alternative to the traditional competition that involves issuing requests for proposals.

23.76 In our view, the arrangement of standing offers as a method of supply for microcomputers and LAN-related products has merit, and the technical and benchmarking requirements add value to the acquisition process.

Opportunities exist for more cost savings

23.77 Call-ups on an NMSO are intended for low-volume purchases. In exercising a call-up, a department usually purchases the NMSO product at the specified price. That price has been set within a competitive price range but usually at a premium, because of the low purchase volume anticipated. Although the RVD process was available for obtaining volume discounts, most microcomputers and LAN-related products purchased in the last two years were acquired through departments' call-ups.

23.78 We reviewed information from Public Works and Government Services Canada on purchases of microcomputers and LAN-related products in 1998-99 and 1999-2000. We noted that on average, RVD procurements accounted for around 25 percent of about $200 million in total annual acquisitions of those products. The data indicate that call-ups on NMSOs were widely used; they accounted for about 45 percent of purchases of the products. The remaining purchases were made using requests for proposals or through unchallenged advance contract award notices (ACANs). Moreover, about 65 percent of all microcomputer/LAN products that were purchased using standing offers were acquired in the last three months of the fiscal year. An analysis of fourth-quarter data from four sample departments confirmed that low-volume purchases dominate (see Exhibit 23.4). We analyzed a sample of RVD transactions processed by PWGSC in 1999-2000 and found that savings from volume discounts averaged about 17 percent.

23.79 Some users expressed the concern that RVDs may take a long time. However, in a small sample of RVD acquisitions made in 1999-2000, procurement averaged four weeks — a significant advantage over the traditional competitive process using requests for proposals. Other users who had reservations about using RVDs cited their preference for retaining sole control or their concern that PWGSC might lack flexibility.

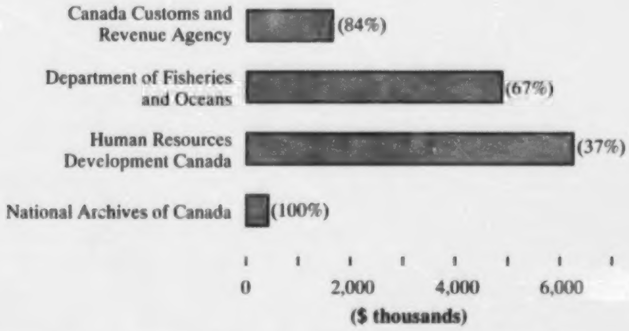
23.80 We recognize that RVD procurement may not always be feasible, and there are occasions when simple call-ups are appropriate and provide the best value. However, increasing the use of

Exhibit 23.4

Low-Volume Purchases Dominate

Analysis of fourth quarter data from four sample departments

(Percentages represent the proportion of purchases that were low-volume)



Source: Departmental data on 1999-2000 acquisitions of microcomputers and local area network products.

RVD procurement could lead to cost savings in the neighbourhood of $10 million every year.

23.81 For expediency, departments and agencies use acquisition cards and local purchase orders for purchases under $5,000. The PWGSC data do not include those purchases, and their extent is not known. In smaller or highly decentralized departments, such purchases can represent a significant portion of the department's total procurement. Some of those purchases could represent another source of cost savings.

23.82 Added savings or faster turnaround times can also be achieved by using other forms of standing offer. Three of the eight user departments that we selected for case review have requisitioned their own standing offers. National individual standing offers (NISOs) are arranged by PWGSC after it receives funded requisitions from a department. That department can then use them throughout Canada.

23.83 The Department of Foreign Affairs and International Trade (DFAIT) used NISOs to address its requirement for maintenance services at missions around the world and to shorten the procurement period. In reviewing its data, we found that by using NISOs, the Department shortened the procurement period for certain acquisitions to two weeks. National Defence achieved up to 39 percent savings with its omnibus NISO, which expired in July 1999. DFAIT had issued six NISOs by August 2000; National Defence was experiencing some delay in replacing the expired omnibus NISO but was continuing its efforts.

23.84 The national master standing offer as a method of supply is well suited to acquiring commodities like desktop and laptop computers. Nevertheless, we believe that additional efforts can be made to ensure value for money.

23.85 Departments and agencies, in co-operation with Public Works and Government Services Canada, should strive to consolidate purchases of microcomputers and LAN-related products to take advantage of opportunities for additional cost savings. Further, Public Works and Government Services Canada and user departments should consider other options to provide enhanced flexibility to meet the government's business needs.

Government's response: We support the recommendation in general.

Standing offer arrangements for commercial software licences and solutions were discontinued as a result of bid challenges

23.86 As well as purchasing microcomputers and LAN-related products, user departments and agencies were using NMSOs to purchase commercial off-the-shelf software products directly from suppliers, subject to the authorized limits. Those limits were $40,000 for software licences and $50,000 for software solutions involving services. Purchases above the limits were processed by PWGSC. In addition to using call-ups, departments and agencies made direct purchases using acquisition cards, local purchase orders and sole-source contracts.

23.87 The NMSO method of supply was established to meet ad hoc needs for limited quantities. It was considered an efficient procurement method and was widely used. During 1998–99, PWGSC processed a total of about $200 million in software purchases, of which about $120 million involved NMSO transactions. In mid-1999, there were 65 NMSOs in effect with software vendors.

23.88 The NMSOs were awarded to software vendors without competition. The criteria, unlike those of NMSOs for microcomputers and LAN-related products, were based solely on previous

Increasing the use of requests for volume discount in procurement could lead to cost savings in the neighbourhood of $10 million every year.

volumes of business and did not involve technical specifications or pricing. Using this and other non-competitive methods of supply, over time departments could build up a substantial investment in certain software products acquired piecemeal and on a non-competitive basis. This could become a significant procurement problem if a department needed to extend the use of the software to the entire department, or when it needed to procure department-wide maintenance services and software upgrades.

23.89 In recent years, potential bidders have successfully challenged the government's solicitation to upgrade existing installed bases of software. After those cases, PWGSC limited the use of the software NMSOs in an attempt to better control software acquisitions and guard against establishing other installed bases of software acquired piecemeal. In August 1997, the Department and the Treasury Board Secretariat introduced an interim measure that limited the use of software NMSOs to the purchase of 10 licences or the addition of 10 users per call-up. In June 1999, PWGSC announced that all 65 of the existing NMSOs would be discontinued by 31 August 1999. (More information about those bid challenges and their ramifications can be found in this chapter under Addressing Bid Challenges and Resolving Disputes.)

The procurement instrument for replacing software standing offers experienced delays and did not provide an adequate solution

23.90 In July 1999, PWGSC released a discussion paper to the government user community and vendors on procurement options for software products and solutions. The paper discussed the Department's strategy for procuring software. It included three classes of software procurement: purchases involving sole-source or limited tendering, purchases using request for proposals, and the transfer of Crown-owned software licences. Within the first class, the Department proposed three options, two of which addressed standing offer arrangements for software. The first was for PWGSC to introduce departmental individual standing offers (DISOs), allowing it to control all software acquisitions. The second option involved negotiating standing offers or supply arrangements, and providing special contracting authorities to user departments and agencies to acquire software, subject to preset terms and conditions that included requirements for reporting.

23.91 PWGSC acknowledged that the second option would be hampered by the difficulty of obtaining appropriate information on all software orders placed by user departments and agencies. In late August 1999, PWGSC began arranging DISOs for software licences as a method to replace the discontinued NMSOs. A framework for procuring software solutions and services would follow. At the time, the Department expected to complete arrangements for software DISOs by the fall of 1999.

23.92 Through open solicitation of vendor interest as well as approaching vendors directly, PWGSC identified 39 software vendors who qualified under criteria that included the value and volume of past sales to the government. It started negotiating with the vendors in September 1999 and awarded the first DISO in December 1999. At June 2000, DISOs had been arranged with 18 of the 39 qualifying vendors. As we concluded the audit in July 2000, the Department had made some progress but some negotiation files were inactive. In late September 2000, PWGSC advised us that 22 DISOs had been established. It indicated that the delays were due in part to the difficulties experienced in negotiating terms and conditions with vendors.

23.93 During the intervening period, especially between August and December 1999, user departments and agencies were left with no replacement for a ready procurement instrument for routine low-volume purchases, one that had been used for 60 percent of the government's total software acquisitions. A set of draft operating instructions to support a framework for procurement of software solutions and services was developed and released for consultation in March 2000. As we completed our audit, the framework had not been finalized. The Department informed us that the process was stalled due to some unresolved policy issues that extended beyond procurement.

23.94 With the DISO arrangements, it was envisioned that PWGSC would control all software standing offer call-ups in the government. This would allow it to monitor and analyze the overall demand in the government and to guard against the piecemeal, non-competitive acquisition of installed software bases.

23.95 As PWGSC negotiated software DISOs, it realized the extent of the additional resources it would need to control and administer all call-ups. As a result, the Department obtained approval to delegate call-up authority to departments and agencies. Under that delegated authority, they can issue call-ups for up to $40,000 in software products and $100,000 in software solution services. Before they receive the authority, departments and agencies must accept the terms and conditions set by PWGSC. Among other conditions, PWGSC requires the user department to be accountable for asset management and for any litigation costs resulting from inappropriate use of DISOs. At July 2000, only 13 departments had requested the delegation of authority and accepted the terms and conditions. The 13 departments accounted for about seven percent of total software acquisitions in 1998–99.

23.96 We noted that PWGSC has no plan to monitor user departments' compliance with the conditions. In two of the departments we selected for case review, we found that asset management systems were not fully in place for department-wide purchases and it was not evident that the necessary changes would be initiated or completed soon. Without an effective asset management system, the departments will not have control over the ad hoc acquisition of software. Moreover, we noted that DISO call-ups by PWGSC can be handled by two separate divisions or by regional staff, and there is no co-ordination among them. In our view, the Department has not put in place a method of supply that guards adequately against the future accumulation of an installed software base acquired on a piecemeal basis without competition. This was a key reason for abandoning the software NMSO as a method of supply.

In our view, the Department has not put in place a method of supply that guards adequately against the future accumulation of an installed software base acquired on a piecemeal basis, without competition.

23.97 Software acquisitions have been treated like those of any commodity. In reality, software products are much more than typical goods. The products are not interchangeable and they are upgraded continually. The pricing of software is based on the number of users rather than the number of physical goods. The market is extremely competitive and involves many players.

23.98 More significantly, software products often have far-reaching implications for an organization. They must be integrated with other technology products in order to function. Maintenance and upgrade costs are usually substantial. Software products have a direct impact on users, and the costs associated with changes, such as training needs and lost productivity, are high. Software procurements are more akin to acquiring a relationship that includes a life cycle than to purchasing a readily replaceable commodity. In cases where software products form part of the IT infrastructure or an enterprise-wide installed base, consideration could be given to treating them as large IT projects and subjecting their purchase to the same rigour and discipline. In our view, the government needs to consider a strategy for acquiring software as an IT investment.

23.99 The government should develop a new strategy, specifically targeting software products and services, that mitigates the risk of establishing an installed base of software acquired piecemeal and non-competitively. In particular, consideration should be given to long-term, life-cycle management of software products that form part of a department's technology infrastructure or a department-wide installed base.

***Government's response:** We support the recommendation, with the caveat indicated by several departments that the severity and urgency in addressing software procurement is understated. Software is a strategic investment and needs to be managed as such, regardless of the way it was acquired. We will work with PWGSC and other stakeholders to evolve a framework that addresses software procurement issues and recognizes the differences between realistic business opportunities to replace installed software and other situations in which renewal by means of acquiring additional licences or upgrades is the only feasible option.*

Complying With Delegated Authority

Our review found no indication of widespread non-compliance with or misuse of delegated authority.

23.100 Authority to enter into contracts has been delegated to departments and agencies through Acts and regulations as well as Treasury Board directives. Departmental contracts with values above the delegated limits have to be processed by PWGSC and may require Treasury Board approval. Notwithstanding the delegation of their authority, ministers remain accountable for procurement decisions and the outcomes.

23.101 The delegated limits for goods and for services are different. They also vary with the way the goods or services are acquired. In general, contracts let using MERX, an open electronic bidding system, have a higher delegated limit. The general limit on authority delegated to departments for acquiring goods is $5,000. PWGSC, the contracting authority for all goods, delegated this authority to departments and agencies. Under specific methods of supply, other delegated limits apply. The government's contracting policy also provides for special and exceptional limits on contracts, including contracts for emergency situations.

23.102 For this audit, we selected a small sample of acquisitions to assess compliance with the delegated authority and with the requirement to use competitive tenders, where applicable.

23.103 We selected the acquisitions from those made by the eight departments and agencies in our audit sample. They represent a cross-section of government organizations with large, moderate and small IT budgets. Their IT spending averaged about $1.4 billion or 60 percent of the government's total IT expenditures in the past four years. The sample of about 80 purchased items was selected from the departments' accounting or procurement records and included 1999–2000 acquisitions of services, hardware and software.

23.104 Aside from a few minor deviations, we found no misuse of the authority delegated to the eight departments and agencies. The small sample was designed only as a test to determine if further analysis and review by the government would be warranted. It was not intended to provide a statistical conclusion on government-wide compliance with delegated authority. Our review found no indication of widespread non-compliance with or misuse of delegated authority.

Addressing Bid Challenges and Resolving Disputes

23.105 The government's contracting policy makes direct reference to trade agreements and the requirement to comply with them. In general, under the *North*

American Free Trade Agreement and the *World Trade Organization–Agreement on Government Procurement*, suppliers from countries that are signatories to those agreements are to be given an equal opportunity to compete with Canadian suppliers for contracts involving defined classes of goods and services. Similarly, to comply with the *Agreement on Internal Trade*, the government is obligated to grant all Canadian suppliers equal access to contracts for certain goods and services.

23.106 Public Works and Government Services Canada specifies integrity as the governing principle for its supply activities. Its Supply Manual states, "PWGSC supply activities will be open, fair and honest." The Department facilitates open access to information on the government's procurement activities through its Contracts Canada initiative. The initiative supports supplier awareness and registration and provides historical information on contracting. It provides an overview of the government's processes for making purchases and resolving disputes. For example, it describes MERX, the government's electronic open bidding system, and the Contract Claims Resolution Board, a departmental process to resolve disputes with contractors. Its Contracts History database provides public access to data on contracting back to April 1997. It also provides information on the trade agreements and the Canadian International Trade Tribunal.

Few contracts have been challenged

23.107 The trade agreements require that the government maintain an independent authority to consider complaints from potential suppliers about designated contracts. The Canadian International Trade Tribunal (CITT), an administrative tribunal, has been established as that authority. Potential suppliers can file a complaint with the Tribunal against a contract that is designated under the trade agreements. Exhibit 23.5 shows the key activities in a contract challenge and their associated timeframe. Suppliers may also take the dispute directly to the Federal Court of Canada for a judicial review.

23.108 We analyzed CITT data on challenges to technology contracts over the five years ended at December 1999. The Tribunal received a total of 43 complaints in that period, 24 of which reached the inquiry stage. Those 24 cases represent less than 0.5 percent of the total value of contracts that the government awarded each year for IT goods and services. Exhibit 23.6 shows the total volume of complaints and those involving IT contracts from 1995 to 1999.

Tribunal cases that reached the inquiry stage over the past five years represent less than 0.5 percent of the total value of contracts that the government awarded each year for information technology goods and services.

Several key cases involved procurement of software licences

23.109 We reviewed the Tribunal's determinations of technology-related complaints over the five-year period. We noted that many complaints were dismissed before reaching the inquiry phase because they were outside the jurisdiction of the CITT, since the challenged procurement was not covered by the trade agreements. Most complaints dealt with circumstances that were specific to the contracts being challenged. However, we found that several key cases from 1997 to 1999 involved similar issues, all related to the procurement of software licences.

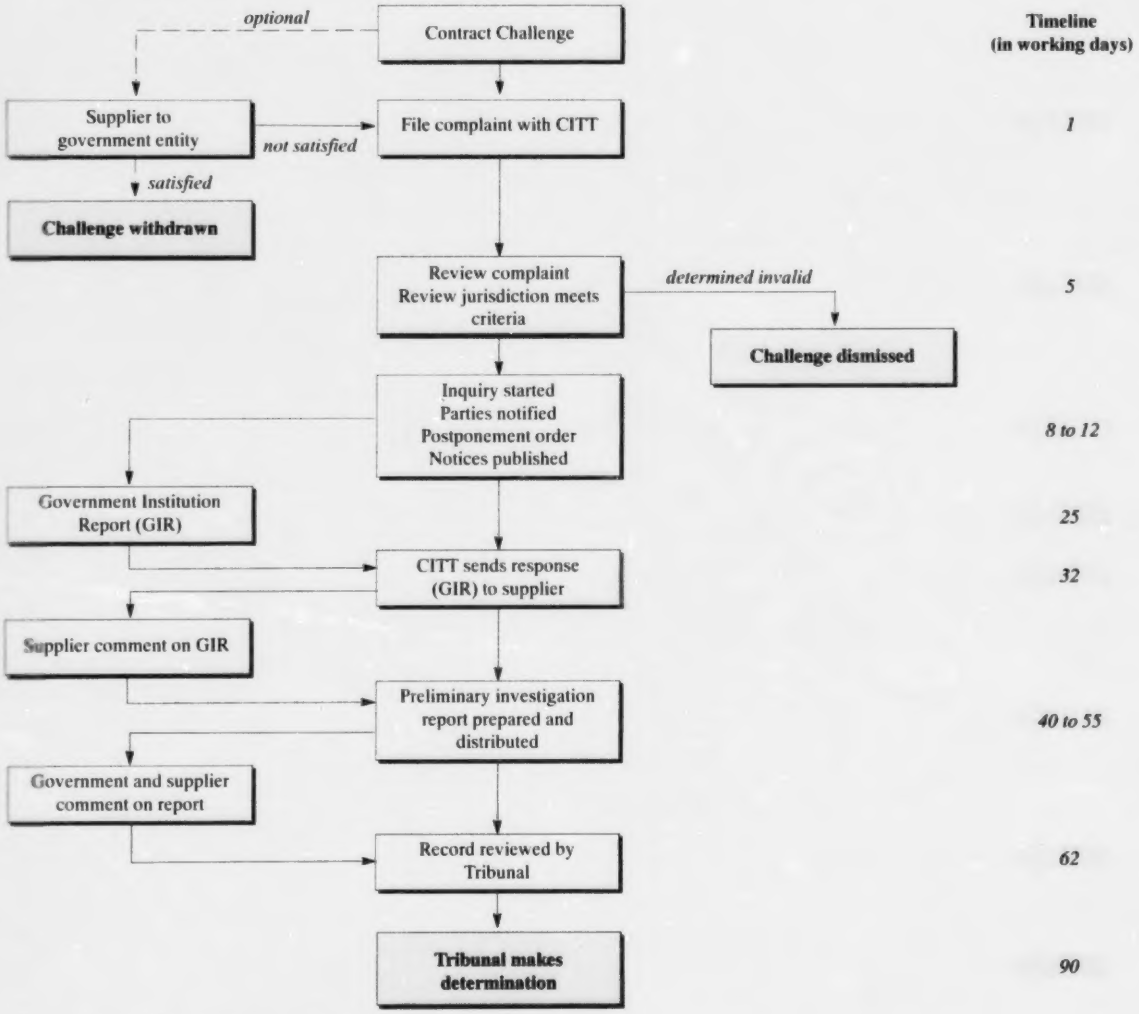
23.110 We examined the CITT's determinations in four such cases. In each case, the user department was acquiring additional licences or upgrades for software already implemented in its information systems. Three were sole-source contracts under the international trade agreements provisions on limited tendering; the fourth contract used open competition.

23.111 The international trade agreements place a restriction on limited tendering to prevent it from being used to avoid the maximum possible competition, to discriminate among suppliers, or to protect domestic suppliers. Limited tendering can be used only under certain circumstances and conditions, as defined by the trade agreements. The Tribunal has determined that if a sole-source contract is challenged, the onus is on the government to prove that limited tendering was justified.

23.112 In the three cases involving sole-source contracts, the CITT found that the government could not prove it had met the conditions for limited tendering. Consequently, the Tribunal determined that an open, competitive procurement process should have been used. Moreover, in one of the three cases, the Tribunal determined that PWGSC could not impute the cost of converting the installed software as a basis for awarding a sole-source contract. The Tribunal stated

Exhibit 23.5

The Contract Challenge Process at the Canadian International Trade Tribunal

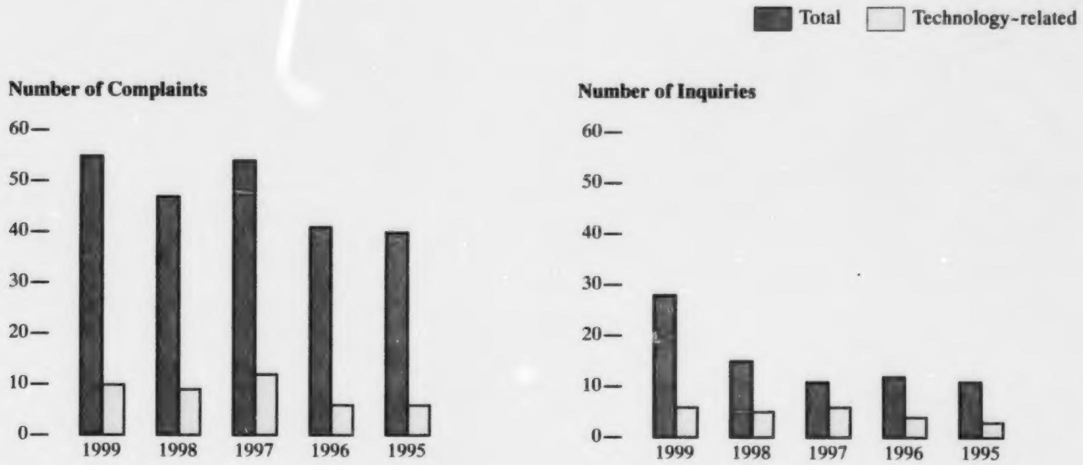

Contract Challenge
optional
Supplier to government entity
File complaint with CITT
not satisfied
satisfied
Challenge withdrawn
Review complaint
Review jurisdiction meets criteria
determined invalid
Challenge dismissed
Inquiry started
Parties notified
Postponement order
Notices published
Government Institution Report (GIR)
CITT sends response (GIR) to supplier
Supplier comment on GIR
Preliminary investigation report prepared and distributed
Government and supplier comment on report
Record reviewed by Tribunal
Tribunal makes determination
Timeline (in working days)
1
5
8 to 12
25
32
40 to 55
62
90

Source: Canadian International Trade Tribunal (CITT) that conversion and training costs ought to be determined through an open competition.

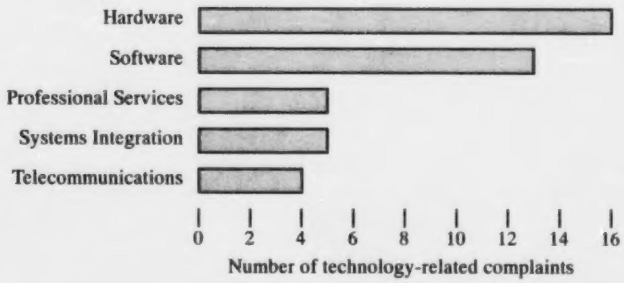
23.113 The fourth case involved an open competition for a department-wide software licence to upgrade or replace the software installed in that department — software that had been acquired without competition. As part of the process, the government had provided information to potential bidders so they could estimate the level of effort and the costs involved in converting the existing installed base to the use of their products. The CITT determined that the government had provided insufficient information for potential suppliers to be able to include a proper estimate of conversion costs in their proposals and had thereby biased the procurement in favour of the incumbent supplier. In evaluating the bids, the government had also allowed for discounting conversion costs to help restore competition. However, the Tribunal was not convinced that this was adequate to restore competition when the installed base had not been acquired in accordance with the trade agreements.

Exhibit 23.6

Complaints Filed With the Canadian International Trade Tribunal, 1995 to 1999



Over a five-year period, 43 technology complaints



Source: Canadian International Trade Tribunal

The cases have significant implications for the government

23.114 In the one case we examined that used a competitive process, the existing software in the department had been acquired using a series of call-ups against the national master standing offer with the same supplier over several years.

We found that the purchases in 1999–2000 were almost exclusively non-competitive.

23.115 As noted in paragraph 23.89, PWGSC modified the call-up limits and subsequently discontinued all NMSOs for software licences to avoid the future development of an installed base of software products acquired piecemeal and non-competitively. However, this type of installed software base potentially exists in other departments.

23.116 We analyzed data in the Contracts Canada database for the past three fiscal years to assess the extent to which software licences had been acquired piecemeal and non-competitively. Our analysis of nine major software vendors showed that a large majority of software purchases from April 1997 to March 2000 were non-competitive. We found that the purchases in 1999-2000 were almost exclusively non-competitive; this represents well over 95 percent of the total purchases from those nine vendors. Moreover we found that since April 1997, only one user department has acquired its installed base of enterprise-wide office automation software on a competitive basis.

Although we did not specifically verify the information, representatives of user departments and the IT community expressed concern that the preoccupation with avoiding complaints to the Tribunal has led to excessive caution in the procurement process.

23.117 The trade agreements permit the use of limited tendering to upgrade software or purchase additional licences only if certain narrowly defined conditions are met. Those conditions cover software products that were initially procured under the provisions of the trade agreements. Thus, the use of sole-source contracts for a department-wide upgrade of a software product, or for acquiring additional licences to extend the use of a software product to the entire department, can be vulnerable to CITT complaints from potential bidders. A competitive process for that type of software procurement is complex and involves many issues, including defining and evaluating conversion costs. In our view, acquiring additional licences or upgrading software for use across a department continues to be a challenge for the government.

23.118 The government should develop a strategy to address the implications of installed bases of software acquired piecemeal and non-competitively and, in particular, address the issue of conversion costs for infrastructure and enterprise-wide software products.

Government's response: *We support the recommendation, with the caveat indicated by several departments that the severity and urgency in addressing software procurement is understated. We will work with PWGSC and other stakeholders to evolve a framework that addresses software procurement issues.*

23.119 The recent CITT cases are well known within the government IT procurement community. Many government officials we interviewed regard the Tribunal determinations and the prospect of facing CITT complaints with apprehension. Once the Tribunal accepts a challenge to a contract, the government is required to furnish a Government Institution Report within 25 days (see Exhibit 23.5). This involves both PWGSC and the user department, and the level of effort required to prepare the Report is viewed by them as intensive and laborious. Although not specifically verified by us, representatives of user departments and the IT community expressed concern that the preoccupation with avoiding complaints to the CITT has led to excessive caution in the procurement process, adding to an already long and complex acquisition phase.

23.120 The Tribunal is the Canadian mechanism for meeting obligations under the trade agreements. It fosters open competition in government procurement. As an appeal mechanism, it ought to be viewed as an essential part of the overall framework of government procurement and not as something to be avoided at all costs.

23.121 Under the Government Contracts Regulations and the trade agreements, open competition subject to exclusions is the norm for government contracting. Where exclusions are used, contracting ought to be subject to appropriate scrutiny to ensure compliance with legislation. It is important that user departments and agencies guard against the possibility of favouring a particular vendor and the solution it offers. Experience shows that a bias can arise from early experimentation with specific sets of tools or from premature determination of department-wide standards. Involving PWGSC early in the procurement cycle could help to ensure and support open competition.

23.122 Determinations rendered by the CITT provide an interpretation of provisions contained in the trade agreements. In some instances, the circumstances surrounding a case and the resulting determination are complex and are subject to varying interpretations, particularly by those not accustomed to reading them. In light of recent CITT determinations, PWGSC has been developing a software procurement strategy to address the issues (see paragraph 23.90). However, there has been no explicit guidance to its procurement staff on the effect of those cases in applying day-to-day operating procedures. If intense scrutiny were to be applied indiscriminately at a detailed procedural level, it could become unmanageable and counterproductive, especially given the rapid pace of technological change, the aggressiveness of the marketplace, and evolving business needs. During the audit, representatives from user departments indicated that since the promulgation of recent CITT determinations, PWGSC supply activities have generally become lengthier and less flexible and have not adequately respected their operational needs.

23.123 Compliance with government regulations and trade agreements ought to be observed at all times. Meeting operational requirements and respecting competition are both important and ought to be given due consideration in all acquisition activities. Meeting operational requirements is the raison d'être of acquisition activities. Once the business needs have been identified, the principle of open competition needs to be respected. Fostering competition through operational and control procedures and meeting operational requirements are not mutually exclusive. It is important to meet operational requirements in a timely fashion with due regard to value for money while also respecting the principle of open competition.

23.124 In acquiring information technology goods and services, departments and agencies should place greater emphasis on open competition as soon as is practical after identifying their business needs. They should seek the advice of Public Works and Government Services Canada as early as possible to develop an appropriate procurement strategy. Public Works and Government Services Canada should work with user departments and agencies to improve its supply activities, in order to ensure the pre-eminence of operational requirements with due regard to value for money, and to ensure adherence to the principle of open competition by complying with regulations and the trade agreements.

Government's response: *We support the recommendation. We agree that a procurement strategy should be an integral part of any business and operational strategy and that operational imperatives, as a matter of contracting policy, need to be reinforced as a fundamental underlying objective of procurement.*

Looking Ahead to Government On-Line

23.125 The 1997 Speech from the Throne noted the need to connect Canadians in order to support a knowledge economy. The Speech from the Throne in fall 1999 went further, setting the goal of being known around the world by 2004 as the government most connected to its citizens. In early 2000, the government laid out its strategy for Government On-Line (GOL), an initiative to make the government a model user of Internet technology by 2004.

23.126 The GOL initiative is unprecedented in its scope. Like the Year 2000 computer problem, GOL imposes a common deadline on all major departments and agencies and affects all programs and operations. But it is much more far-reaching, because it deals with business re-engineering and may involve the integration of services within and outside the government.

The Government On-Line initiative underscores the importance and the urgency of resolving the issues.

23.127 To meet this challenge, government procurement activities need to work on acquiring the necessary IT goods and services on a timely basis to support on-line access by the public and interaction with it by 2004. The GOL initiative underscores the importance and the urgency of resolving the issues we have identified in this chapter.

Conclusion

23.128 Our data analysis showed that the government has made significant acquisitions of information technology (IT) goods and services. Over time, IT expenditures have increased both in total and as a proportion of the government's operating expenditures. Spending on IT will increase as large development projects that were deferred because of Year 2000 remediation are continued and the new Government On-Line (GOL) initiative is carried out.

23.129 We found that recent acquisitions for large IT projects followed some essential elements of the new procurement approach and project management framework. Although the new systems have yet to be fully developed and deployed, results to date are encouraging. We noted, however, that the time span of procurement activities is still long.

23.130 The GOL target date is just three years away. If procurement activities for large projects continue to take 18 months or more, user departments and vendors will be left with less than 18 months to develop and implement IT solutions to support GOL. Aspects of the Year 2000 omnibus contract could benefit future IT acquisitions, but certain issues would need to be addressed to ensure that the resulting procurement instrument would obtain the best value for money spent.

23.131 We noted that several recent determinations by the Canadian International Trade Tribunal (CITT) have had a profound effect on government procurement activities. A long-standing method of supply for software licences and software solution services was modified and then discontinued, and a replacement method is still being developed. There are also unresolved issues concerning installed bases of software that exist in many departments. Furthermore, representatives from user departments indicated that the government has subjected all procurement activities to intense scrutiny to avoid the filing of possible complaints with the CITT, resulting in additional time and effort for an already long and complex procurement process.

23.132 These issues need to be resolved as soon as possible to adequately meet government contracting objectives and to pave the way for developing and implementing the information systems and technology infrastructure needed to put the government on-line by 2004.

About the Audit

Objective and Scope

The objective of this audit was to assess the extent to which information technology (IT) acquisitions in government meet policy objectives while paying due regard to efficiency and economy.

The audit covered procurement activities for large IT projects and routine supply of microcomputers, equipment for local area networks, and software, starting with the needs identification phase and ending with the contract award and any related challenges. We did not include activities such as accepting delivery of the goods and services and developing and implementing the IT solutions.

We analyzed IT expenditures since 1995-96, and interviewed officials and staff of the Treasury Board Secretariat, Public Works and Government Services Canada, the Canadian International Trade Tribunal and a cross-section of user departments and agencies. We met officials in the Secretariat to discuss its policy role and its initiative to reform procurement activities and make them more responsive to the government's business needs. We also reviewed a number of acquisition cases in the eight user departments selected for our audit.

The selection of user departments and agencies provided a portfolio of entities with varying levels of IT expenditures. They are as follows:

- National Defence;
- Canada Customs and Revenue Agency;
- Human Resources Development Canada;
- Department of Foreign Affairs and International Trade;
- Fisheries and Oceans;
- Correctional Service Canada;
- Registry of the Federal Court of Canada; and
- National Archives of Canada.

Criteria

The following general criteria were used in the audit:

- The acquisition of IT goods and services in the federal government should be responsive to the government's business needs while paying due regard to efficiency and economy. Acquisitions should meet other contracting policy objectives such as respecting the principles of competitiveness, fairness and transparency.
- Large and complex IT solutions should be acquired to achieve best value by using procurement methods that encompass essential elements of established frameworks such as Benefits Driven Procurement and the Enhanced Management Framework.

- Procurement methods and tools should be developed and used to ensure best value in the routine supply of microcomputers, network components, commercial off-the-shelf software and IT services.
- Government-wide licences should be acquired to provide common IT solutions at best value while supporting competitiveness.
- The government should have initiatives in place to heighten awareness of IT purchasing opportunities and available procurement vehicles for providing best value and promoting accessibility.
- The delegation of authority to departments and agencies to acquire IT goods and services should be appropriate and documented, and properly complied with.
- IT goods and services should be acquired in accordance with trade agreements, and challenges should be properly addressed.

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Report of the Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6

5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry

6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter

15 Health Canada – First Nations Health: Follow-up

Other Observations
16 Follow-up of Recommendations in Previous Reports
17 Other Audit Observations

Volume 3 – December 2000

Chapter

Matters of Special Importance – 2000
Foreword and Main Points

18 Governance of Crown Corporations

19 Reporting Performance to Parliament: Progress Too Slow

20 Managing Departments for Results and Managing Horizontal Issues for Results

21 Post-Secondary Recruitment Program of the Federal Public Service

22 Development of the Universal Classification Standard: A Follow-up

23 Information Technology: Acquisition of Goods and Services

Protecting Health and Safety
24 Federal Health and Safety Regulatory Programs
25 Canadian Food Inspection Agency – Food Inspection Programs
26 Health Canada – Regulatory Regime of Biologics
27 Canadian Nuclear Safety Commission – Power Reactor Regulation
28 Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

29 Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

30 Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

31 Fisheries and Oceans – Fleet Management

32 National Defence – Defence Support Productivity: A Progress Report

Other Observations and Appendices
33 Follow-up of Recommendations in Previous Reports
34 Other Audit Observations

35 Sustainable Development Strategy for the Office of the Auditor General

Report of the
Auditor General
# of Canada
to the House of Commons

Protecting Health and Safety

Chapter 24
Federal Health and Safety Regulatory Programs

Chapter 25
Canadian Food Inspection Agency –
Food Inspection Programs

Chapter 26
Health Canada – Regulatory Regime of Biologics

Chapter 27
Canadian Nuclear Safety Commission –
Power Reactor Regulation

Chapter 28
Follow-up of Previous Recommendations on
Health and Safety Regulatory Programs

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

© Minister of Public Works and Government Services Canada 2000
Cat. No. FA1-2000/3-28E
ISBN 0-662-29587-0
Copies françaises aussi disponibles

Chapter 24

Federal Health and Safety Regulatory Programs

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 24-5

Introduction 24-7

Focus of the audit 24-7

Observations and Recommendations 24-9

Understanding Major Challenges in Health and Safety Regulatory Programs 24-9

Increased reliance on industry 24-9

Increased use of standards developed by third parties 24-11

International harmonization of regulatory approaches 24-13

Major changes in resources and organization 24-13

Credibility of the use of science by government 24-14

Implementation of the precautionary principle 24-14

Potential legal liability 24-15

Need for multi-departmental action 24-16

Need for multi-jurisdictional action 24-16

Increased public scrutiny 24-17

Extensive requirements of the regulation-making process 24-17

Implementing Health and Safety Regulatory Programs 24-20

Improving Regulatory Programs 24-20

Clarifying priorities and values 24-20

Safeguarding the credibility of science in government 24-31

Increasing public dialogue 24-32

Increasing accountability for interdepartmental co-operation 24-33

Encouraging federal-provincial co-operation 24-34

Conclusion 24-35

About the Audit 24-37

Special Insert — Implementing Health and Safety Regulatory Programs 24-21

Exhibits

24.1 Our Audits of Health and Safety Regulatory Programs 24-8

24.2 Major Steps and Responsibilities in the Making of Federal Regulations 24-19

Appendices

A. Government of Canada Regulatory Policy, November 1999 24-38

B. Federal Regulatory Process Management Standards: Compliance Guide 24-39

Federal Health and Safety Regulatory Programs

Main Points

24.1 The overall objective of health and safety regulatory programs is to proactively protect Canadians from risks to health and safety — to catch the problem before it happens, and if it happens, to minimize the consequences.

24.2 The Canadian Food Inspection Agency, Health Canada, Environment Canada, Transport Canada, the Canadian Nuclear Safety Commission and the National Energy Board administer major federal health and safety regulatory programs. We estimate that in 1999-2000 the regulatory programs administered by these organizations spent about $1.2 billion and employed some 12,000 people. They administer about 85 Acts and 250 regulations. Their objectives range from controlling toxic chemicals to maintaining the safety of food, drugs and nuclear power plants.

24.3 The objective of the government's regulatory policy is to promote the design and implementation of effective regulatory programs. Because performance measurement is weak, there is insufficient information to assess the cost effectiveness of health and safety regulatory programs.

24.4 Over the past decade, our audits of federal health and safety regulatory programs have found many instances where the regulatory authorities have not met the expectations of the government's regulatory policy. While effectiveness cannot be judged solely on the basis of adherence or lack of adherence to the policy, well structured programs increase cost effectiveness and reduce the risk of regulatory failure.

24.5 Improving the structure and implementation of federal health and safety programs will require action government-wide and by the responsible regulatory authorities. In particular, we emphasize the need to ensure the following:

- the government explains to Canadians and the federal regulatory and inspection community the priorities for health and safety regulatory programs, particularly the balance the government has reached between the objective of protecting Canadians, addressing budget concerns and meeting economic objectives;
- reliable information is available on the level of risk and the extent to which it is and can be controlled;
- based on priorities determined by risk assessment, regulatory authorities have sufficient financial and human resources;
- the government identifies major health and safety objectives that can only be achieved through interdepartmental co-operation, and authorities assess officials on the achievement of these objectives; and
- the government annually submits reports to Parliament on the overall effectiveness of health and safety regulatory programs, including reports by lead regulatory authorities on the achievement of objectives that require significant interdepartmental co-operation.

Background and other observations

24.6 We undertook this audit to identify the following:

- major trends and challenges faced by health and safety regulatory authorities;
- patterns of recurring strengths and weaknesses in structure and implementation; and
- measures that could be taken to make significant improvements in the structure and implementation of regulatory programs.

24.7 We used key elements of the government's regulatory policy as a basis for organizing information on patterns of strengths and weaknesses. Our findings are based on the results of our current audits of food inspection programs, nuclear power plant regulation, the regulatory regime for biologics of Health Canada, and follow-up audits of animal health and plant protection, safety regulation for the air navigation system of Transport Canada, and onshore pipeline regulation. They are also based on audit findings from previous Reports of the Auditor General and the Commissioner of the Environment and Sustainable Development. As well, we have taken into account the findings of parliamentary committees, government reports and reports of non-government organizations.

24.8 Canadians are concerned about health and safety risks. Crises or regulatory failures heighten these concerns. However, the government cannot eliminate all risks. Canadians need to be provided with understandable information on health and safety risks and consulted on the choices to be made.

24.9 The public's confidence in the government's use of science and technology to protect the health and safety of Canadians has been shaken by recent crises, for example, the concerns about the safety of the blood supply reviewed by the Commission of Inquiry on the Blood System in Canada (Krever Commission). The use of independent expert advisory committees could be expanded to provide advice and enhance the credibility of the regulatory effort.

24.10 Under the Constitution and in practice, the federal government often shares responsibility for the protection of health and safety with the provinces. Co-operation is fast becoming mandatory, rather than a matter of choice. Increasingly, risks are of a global nature, and multinational action is required. Standards and regulatory approaches among countries are being harmonized through trade treaties or international agreements. This trend means that Canadian regulatory authorities need to co-operate to effectively present a Canadian position in international exercises for setting standards. For these reasons, it is in the interest of all parties to work together and to participate in the development of a national health and safety regulatory plan.

The Privy Council Office states that while the government believes its regulatory policy is sound, it shares our Office's concern. It recognizes the need to ensure that regulatory authorities have the capacity to meet the expectations of the policy — to properly develop and to appropriately implement regulations and regulatory programs.

Introduction

24.11 Health and safety regulatory programs deal with issues that have far-reaching implications. The programs are responsible for such matters as maintaining the safety of the blood supply, contributing to the safety of food, and monitoring the quality of air.

24.12 The Canadian Food Inspection Agency, Health Canada, Environment Canada, Transport Canada, the Canadian Nuclear Safety Commission and the National Energy Board administer major federal health and safety regulatory programs. Over the past decade, we have audited most of these programs. We estimate that the spending on these programs was about $1.2 billion in 1999-2000. (Some 12,000 full-time employees developed, implemented or enforced these programs.) This estimate does not include all government spending on health and safety regulatory programs. For example, it does not take into account spending by other agencies, such as the Canada Customs and Revenue Agency, on health and safety inspections or similar activities. As well, it does not include expenditures on supporting corporate administration and policy development. Finally, our estimate does not include the costs incurred by industry to comply with the requirements of these programs and the costs incurred by consumers.

Focus of the audit

24.13 This chapter provides a framework for understanding regulatory programs. It discusses major trends in regulatory approaches and the causes of the difficulties faced by the programs and proposes priorities for improvement. The chapter also identifies recurring patterns of strengths and weaknesses in the structure and implementation of health and safety regulatory programs.

24.14 The government's regulatory policy, including its regulatory process management standards, are similar to those of other member countries of the Organization for Economic Co-operation and Development. We use key elements of the policy as criteria for organizing information on patterns of findings of how well health and safety regulatory programs are being developed and implemented (see appendices A and B). We cover the following issues: risk identification and management, consultation and co-ordination, adherence to the government's regulatory process management standards, human resource management, cost recovery, enforcement and compliance, and reporting on effectiveness.

We estimate that major health and safety programs spent $1.2 billion in 1999-2000.

24.15 Our analysis and recommendations are based on the findings of our current and previous audits, and assessments by Parliament, the Privy Council Office, the Treasury Board Secretariat, departments and authoritative third parties. Our December 2000 Report contains results of our current audits: Chapter 25, Canadian Food Inspection Agency — Food Inspection Programs; Chapter 26, Health Canada — Regulatory Regime of Biologics; and Chapter 27, Canadian Nuclear Safety Commission — Power Reactor Regulation. We also conducted follow-ups of previous audits. Chapter 28 contains follow-ups of the National Energy Board, the animal health and plant protection inspection program of the Canadian Food Inspection Agency, and the commercialization of the air navigation system by Transport Canada. Our findings over the past decade on how well the government has been implementing health and safety regulatory programs are presented on pages 24–21 to 24–28. Exhibit 24.1 lists our current and previous audits of health and safety programs over the past decade.

24.16 We present more details in **About the Audit** at the end of this chapter.

Exhibit 24.1

Our Audits of Health and Safety Regulatory Programs

2000	**Auditor General's Report** Chapter 24, Federal Health and Safety Regulatory Programs Chapter 25, Canadian Food Inspection Agency – Food Inspection Programs Chapter 26, Health Canada – Regulatory Regime of Biologics Chapter 27, Canadian Nuclear Safety Commission – Power Reactor Regulation Chapter 28, Follow-up of Previous Recommendations on Health and Safety Regulatory Programs **Commissioner's Report** Chapter 4, Smog: Our Health at Risk Chapter 5, Partnerships for Sustainable Development: Overview Chapter 6, Working Together in the Federal Government Chapter 7, Co-operation Between Federal, Provincial and Territorial Governments Chapter 8, Working With the Private Sector
1999	**Auditor General's Report** Chapter 11, Agriculture Portfolio – User Charges Chapter 13, National Defence – Hazardous Material: Managing Risks to Employees and the Environment Chapter 14, National Health Surveillance: Diseases and Injuries **Commissioner's Report** Chapter 2, Sustainable Development Strategy Consultations Chapter 3, Understanding the Risks From Toxic Substances: Cracks in the Foundation of the Federal House Chapter 4, Managing the Risks of Toxic Substances: Obstacles to Progress Chapter 5, Streamlining Environmental Protection Through Federal-Provincial Agreements: Are They Working? Chapter 6, Making International Environment Agreements Work: The Canadian Arctic Experience
1998	**Auditor General's Report** Matters of Special Importance Chapter 13, National Energy Board
1997	**Auditor General's Report** Chapter 4, Control of the Transboundary Movement of Hazardous Waste Chapter 19, Transport Canada – The Commercialization of the Air Navigation System Chapter 27, Ozone Layer Protection: The Unfinished Journey
1996	**Auditor General's Report** Chapter 9, Agriculture and Agri-Food Canada – Animal and Plant Health: Inspection and Regulation Chapter 22, Federal Contaminated Sites: Management Information on Environmental Costs and Liabilities
1995	**Auditor General's Report** Chapter 2, Environment Canada: Managing the Legacy of Hazardous Wastes Chapter 3, Federal Radioactive Waste Management Chapter 4, Health Canada: Management of the Change Initiative at Health Protection Branch Chapter 11, Environmental Management Systems: A Principle-based Approach
1994	**Auditor General's Report** Chapter 13, Federal Management of the Food Safety System Chapter 15, Atomic Energy Control Board – Canada's Nuclear Regulator
1993	**Auditor General's Report** Chapter 25, Parliamentary Control Over the Raising of Revenues by Fees Chapter 26, Pulp and Paper Regulations

Exhibit 24.1

Our Audits of Health and Safety Regulatory Programs

2000	**Auditor General's Report** Chapter 24, Federal Health and Safety Regulatory Programs Chapter 25, Canadian Food Inspection Agency – Food Inspection Programs Chapter 26, Health Canada – Regulatory Regime of Biologics Chapter 27, Canadian Nuclear Safety Commission – Power Reactor Regulation Chapter 28, Follow-up of Previous Recommendations on Health and Safety Regulatory Programs **Commissioner's Report** Chapter 4, Smog: Our Health at Risk Chapter 5, Partnerships for Sustainable Development: Overview Chapter 6, Working Together in the Federal Government Chapter 7, Co-operation Between Federal, Provincial and Territorial Governments Chapter 8, Working With the Private Sector
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1998	**Auditor General's Report** Matters of Special Importance Chapter 13, National Energy Board
1997	**Auditor General's Report** Chapter 4, Control of the Transboundary Movement of Hazardous Waste Chapter 19, Transport Canada – The Commercialization of the Air Navigation System Chapter 27, Ozone Layer Protection: The Unfinished Journey
1996	**Auditor General's Report** Chapter 9, Agriculture and Agri-Food Canada – Animal and Plant Health: Inspection and Regulation Chapter 22, Federal Contaminated Sites: Management Information on Environmental Costs and Liabilities
1995	**Auditor General's Report** Chapter 2, Environment Canada: Managing the Legacy of Hazardous Wastes Chapter 3, Federal Radioactive Waste Management Chapter 4, Health Canada: Management of the Change Initiative at Health Protection Branch Chapter 11, Environmental Management Systems: A Principle-based Approach
1994	**Auditor General's Report** Chapter 13, Federal Management of the Food Safety System Chapter 15, Atomic Energy Control Board – Canada's Nuclear Regulator
1993	**Auditor General's Report** Chapter 25, Parliamentary Control Over the Raising of Revenues by Fees Chapter 26, Pulp and Paper Regulations

Exhibit 24.1 (continued)

1990	**Auditor General's Report** Chapter 18, Department of the Environment
1989	**Auditor General's Report** Chapter 17, Federal Regulatory Review Process Chapter 22, Department of Transport – Canadian Coast Guard: Protecting Mariners' and Public's Interest

Observations and Recommendations

Understanding Major Challenges in Health and Safety Regulatory Programs

24.17 Health and safety regulatory programs usually address a broad issue using enabling legislation. For example, the food inspection programs of the Canadian Food Inspection Agency contributes to the safety of food by monitoring a wide range of food products under various federal food statutes. Similarly, Health Canada is responsible for regulating a variety of areas, including biological products such as vaccines, blood, human semen, animal tissue and organ transplants to humans.

24.18 The government's regulatory policy, including its regulatory process management standards, guide the implementation of regulatory programs. Specific regulations are used to implement programs. The authority to make regulations is provided for in the enabling legislation. Regulations may be prepared before or after the proclamation of the enabling legislation. However, they cannot be enforced before proclamation. When authorities wish to make regulations, they must follow the regulatory process management standards. These standards are similar to the principles of the regulatory policy, but are much more detailed. They describe the specific steps that regulatory authorities need to follow to propose, assess and develop a regulation.

24.19 Over time, there have been major changes in the federal regulatory approaches to respond to major changes in technology, significant pressures to maintain economic competitiveness and a growing need to harmonize Canadian regulatory approaches with the requirements of international agreements. Among the emerging major responses to the changes are an emphasis on increased reliance on industry, the greater use of standards set by third parties and the use of internationally accepted standards. In addition, health and safety regulatory programs operate in an increasingly complex environment. For example, they have undergone major changes in organization, there is greater risk of legal liability and there is an increased need for interdepartmental and multi-jurisdictional co-ordination.

Increased reliance on industry

24.20 Traditionally, regulatory programs have been based on regulations that require companies to comply with certain standards of production or service delivery, and on an inspection and penalty system to ensure compliance. The government retained primary responsibility for developing regulations and for ensuring compliance with them. Regulations often specify what is to be inspected, by whom and how. In certain instances, they require both industry and the government to carry out specific inspections.

24.21 Over time, alternatives to the traditional approach have been developed because of the following concerns:

- inspection programs of the federal government duplicated those that industry established, in part, to ensure their consumer market and avoid major lawsuits;
- the costs to the government and industry of regulations and compliance programs were increasing without an apparent increase in public health and safety;
- regulations were increasingly based on outdated scientific information and were difficult to change;
- new products and services and risks to health safety made the development of appropriate regulations more difficult; and
- industry and advocacy groups wanted ongoing consultation on regulatory approaches and faster responses to their concerns.

24.22 The January 1993 report of the Sub-Committee on Regulations and Competitiveness of the parliamentary Standing Committee on Finance called for greater use of alternatives to regulation. The subcommittee recommended the following:

- the government needs to adopt a policy of decreasing its inspection and monitoring of a regulated company that is certified and is meeting quality management standards; and
- regulated companies need to be allowed options to prove conformance to regulations.

24.23 In response to these concerns and recommendations, the federal government endorsed the use of alternatives to regulation in 1995. Its regulatory policy now requires regulatory authorities to consider alternatives to direct regulation, such as increased reliance on industry through voluntary industry codes.

24.24 Under this reliance approach, it continues to be ultimately responsible for safeguarding the health and safety of citizens. However, the government can devolve to industry, in varying degree, responsibility for establishing product and service standards, for maintaining quality assurance and inspection systems to ensure compliance, and for providing performance reports to assure the government of the integrity of the system and the achievement of goals. The government can verify the information from industry and conduct audits.

24.25 For example, in 1995 the federal, provincial and territorial governments issued a revised version of A Blueprint for the Canadian Food Inspection System. The document states that the longer-term objective is for governments to modify their role by refocussing their activity in the area of quality standards inspection, in favour of an audit of a company's performance against food safety and product identity standards. The federal government is implementing a food safety enhancement program to help "ensure that all processed agri-food products...and the conditions under which they are manufactured lead to the production of safe food." Industry is responsible for controlling and monitoring its critical control points in accordance with an approved plan that meets government standards. The government is responsible for checking the adequacy of the controlling and monitoring done by industry and for verifying its monitoring records. This approach is expected to allow inspectors to focus their efforts on priority areas.

24.26 The policy of shifting from regulatory regimes to reliance on industry has been controversial. Some have expressed general concerns that public health and safety could be compromised because industry would place profit ahead of public health and safety and that there would be inadequate accountability, credibility and effectiveness. Others have raised concerns about conflict of interest when government recovers costs from industry for providing regulatory services that are supposed to protect the public from negligence by industry.

24.27 There is also concern about using third parties to assess health and safety. In 1998 Health Canada consulted Canadians on how to renew federal health protection legislation. Health Canada asked whether it should be permitted to delegate to an independent third party some of its responsibilities for assessing the safety and effectiveness of products and services sold in Canada. Health Canada's 1999 National Consultations Summary Report indicates that views on this matter are "polarized." Unless stringent precautions are taken, the report concludes that Canadians would view this approach as "an abdication by Health Canada of its responsibilities."

24.28 One argument made to support the shift in responsibilities is that major companies face an increased liability for negligence. As a result of this liability, it is assumed that the interests of the public will be protected because of the need for a company to maintain consumer confidence and avoid lawsuits.

24.29 Legislation and legal precedents create the context for civil lawsuits. In 1994 Health Canada studied the effectiveness of civil lawsuits as a deterrent to the production and supply of hazardous consumer products. The study noted that the increased liability faced by industry may not be a sufficient deterrent because it may be largely hypothetical. Despite legislation in some provinces allowing for class action law suits, citizens may still not have enough resources and opportunities to use the courts to seek redress for industry negligence.

24.30 The study found that civil litigation does not cause manufacturers to adopt measures to avoid injuries where the cost of the measures is greater than the cost of settling civil action for an injury or death. In particular, it found that litigation is least effective for injuries that are small, but affect a large group of people, or for manufacturers without a brand name to protect in Canada or with very limited assets in Canada.

The policy of shifting from regulatory regimes to reliance on industry has been controversial.

24.31 Because reliance on industry arrangements are relatively new, general conclusions about their effectiveness cannot yet be reached. However, in previous audits we have suggested that the following actions need to be taken for them to work well:

- the government must clearly define the results to be achieved;
- industry must implement a sound program to measure performance and quality on which the government can rely;
- industry must provide the government with comprehensive data for the timely assessment of industry's performance; and
- the government must determine the reliability of this data from industry.

Increased use of standards developed by third parties

24.32 In 1996 the Treasury Board Secretariat initiated the standards and regulatory reform program to encourage departments to participate, where appropriate, in developing regulatory regimes based on standards. This approach has been considered useful to adapt to rapid changes in technology. For example, technology in biologics is moving quickly, and regulations need to be frequently revised.

24.33 Under this approach, responsibility for developing a standard rests with a recognized standards development organization or professional body. The objective is to develop standards that reflect a consensus of interested parties. While the government takes part in developing the standards, it is one of several stakeholders that include relevant professional bodies and technical experts.

24.34 Once approved and published, these standards can be referenced in whole or in part in regulations, making them mandatory rules. Regulatory authorities also can supplement the referenced standards with policies, guidelines and operating procedures according to which manufacturers must meet certain requirements and submit to periodic inspections to ensure compliance. Responsibility for updating the standards rests with the standards development organization, rather than the government. Regardless of the adopted approach, the government remains accountable for the effectiveness of the regulatory regime.

The government needs to fully assess the extent to which the standards-based approach can be applied.

24.35 Proponents believe that a regulatory regime based on standards developed by third parties provides greater flexibility than traditional government-run approaches. In particular, they believe that such a regulatory regime works well when new knowledge or technical advances require immediate changes in a standard. Proponents also feel that standards developed with the consensus of third parties also result in the following:

- the use of clearer and simpler language because these standards are not subject to legal drafting rules;
- greater flexibility in adapting to technological change;
- more acceptance, greater compliance and less need for education and enforcement; and
- greater ease in harmonizing national standards with international standards.

24.36 The government needs to fully assess the extent to which the standards-based approach can be applied and its effectiveness relative to the traditional approach.

24.37 For example, it is not clear whether there is less or more consultation using the traditional or standards-based approach. A standards-based approach may focus on reaching a consensus among experts and industry and could result in less public consultation than the traditional government regulatory process requires. Also, using a standards-based approach may not always be faster than a traditional approach, and third parties may not wish to undertake a standard setting exercise when there is the potential for significant legal liability.

24.38 Our current audit of Health Canada's regulatory regime of biologics looked at the advantages and disadvantages of using standards developed by third parties. In recent years, Health Canada has consciously moved toward adopting regulatory frameworks based on standards. The Department believes that this approach provides greater flexibility to respond and adapt to rapid advances in technology and to the diverse nature and risks presented by biologics. However, because changes to the standards can only be made by consensus under the auspices of the responsible standards development organization, Health Canada is concerned that it may not be able to make necessary changes when a consensus is difficult to reach. Yet, the Department retains the authority to make a new regulation. Health Canada is considering the option of referencing, where needed, its own technical standards over which it will have complete authority.

24.39 Legal liability for health and safety standards developed by third parties and incorporated into regulations is another issue that has arisen. Standards development organizations may not be willing to tackle a standard that would expose them to significant liability. The experience of Health Canada indicates that when standards development organizations develop standards that may expose them to significant liability, they may have to carry insurance coverage running into the millions of dollars, and the government would probably have to indemnify them for the losses beyond an agreed amount. The federal government has recently agreed to indemnify a standards development organization by accepting to pay any possible claims that court decisions would impose beyond the amount the organization could bear to pay. However, no contract has been signed with the organization.

24.40 Health Canada is assessing its experience, and we have recommended that it uses the lessons learned in applying future standards-based regulatory regimes.

24.41 The government has also used voluntary industry codes. Industry Canada and the Treasury Board Secretariat provided guidance to federal entities on the use of such standards in Voluntary Codes: A Guide for Their Development and Use. The 1999 Health Canada report indicates that Canadians are skeptical about the effectiveness of voluntary standards. The National Packaging Protocol is an example of a voluntary industry code that the government has used. Approved by the Canadian Council of Ministers of the Environment, the protocol contains targets and a schedule for achieving a 50 percent reduction in waste going to landfill by 2000.

International harmonization of regulatory approaches

24.42 Standards establish accepted practices, technical requirements and terminologies. The government's regulatory policy requires federal entities to determine whether there is an international standard on which they can base a domestic regulation. There are also many international agreements that require Canada to adopt international standards. When departments develop regulations, they need to be concerned about consistency with these standards and standards that could be incorporated into future international agreements. As a result, federal health and safety regulations increasingly refer to standards established by international bodies.

24.43 International agreements often call on signatory nations to use similar standards. This practice harmonizes standards among nations and may be a prerequisite for increasing trade. Protecting the environment often means adopting international standards. As well, the regulation and inspection of food is increasingly part of international trade agreements and economic competitiveness. The Canadian Food Inspection Agency manages about 1,500 international agreements dealing with access to international markets.

24.44 The work on pesticide regulation by the technical working group established under the North American Free Trade Agreement between Canada, the United States and Mexico illustrates the increasing international harmonization of regulatory approaches. The working group addresses trade irritants, builds national regulatory and scientific capacity, shares the review burden and co-ordinates scientific and regulatory decisions on pesticides.

24.45 The working group has formed four subcommittees. One of them, the joint review subcommittee, develops compatible review programs of pesticides to facilitate routine sharing of work on pesticide regulation. In April 1998 the subcommittee completed its first joint review of a pesticide. The activities of the technical working group on pesticides is an example of a means of addressing the problem of scarce expert resources by sharing expertise.

Major changes in resources and organization

24.46 Key health and safety regulatory programs have undergone major budgetary and organizational changes.

Changes in Environment Canada, Health Canada and the creation of the Canadian Food Inspection Agency illustrate these trends.

24.47 Over the three years ending in 1997-98, Environment Canada's budget was reduced from $737 million to $503 million and the Department lost about 1,400 of 5,700 employees.

24.48 The government created the Canadian Food Inspection Agency in April 1997 by consolidating food inspection and quarantine services previously provided by Agriculture and Agri-Food Canada, Fisheries and Oceans, and Health Canada. These departments transferred about $330 million and about 4,500 full-time employees to the Agency. When it was created, the Agency was expected to cut its budget by $33 million over the first three years of operation.

Without credible science, health and safety regulatory programs can be challenged as untrustworthy and subservient to political policy or special interests.

24.49 Health Canada's health protection mandate spans the spectrum of health risks, from therapeutic products to food safety, to environmental safety, to product safety, and to disease risks. In recent years there have been significant fluctuations in resources for health protection as a result of the government's Program Review, program changes, and the introduction of new initiatives and priorities, such as AIDS and cancer research and blood safety. In 1997-98 the Health Protection Branch had expenditures of $146 million and some 2,000 full-time employees, compared with $216 million and about 2,300 full-time employees in 1995-96. For 2000-01, the planned budget for the Branch's activities amounts to some $303 million and about 2,300 full-time employees.

24.50 In July 2000 the Department created three new branches to integrate health promotion and protection activities. The Health Products and Food Branch, Healthy Environments and Consumer Safety Branch, and Population and Public Health Branch are now responsible for the activities of the former Health Protection Branch and Health Promotion Programs Branch.

Credibility of the use of science by government

24.51 Credible science underpins health and safety regulations. It consists of qualified people carrying out such activities as research in laboratories, establishing technical standards, analyzing databases, inspecting facilities, assessing new technologies and identifying potential threats.

24.52 The government recently published A Framework for Science and Technology Advice: Principles and Guidelines for the Effective Use of Science and Technology Advice in Government Decision Making. This report notes that "recent government decisions in the areas of natural resources management, public health and safety, and other areas have undermined public confidence and contributed to public concern regarding the ability of the federal government to address science-based issues effectively"; for example, the concerns about the safety of the blood supply reviewed by the Commission of Inquiry on the Blood System in Canada (Krever Commission).

24.53 Without credible science, health and safety regulatory programs can be challenged as untrustworthy and subservient to political policy or special interests. As a result, public confidence in and support for regulatory initiatives can be undermined. We discussed the importance of maintaining the credibility of science in government in our October 2000 Report, Chapter 12, Values and Ethics in the Federal Public Sector. We also discussed efforts to enhance the credibility of science in government.

Implementation of the precautionary principle

24.54 The complexity of managing health and safety regulatory programs has grown with the increasing focus on the precautionary principle for decision making. The description of the principle in the *Canadian Environmental Protection Act* illustrates how the principle is being incorporated into legislation. The Act states that under the Constitution and the laws of Canada, the government must apply "the precautionary principle…where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as reason for postponing cost-effective measures to prevent environmental degradation."

24.55 Among the earliest uses of the precautionary principle (or approach) was its incorporation in the 1987 declaration of ministers on the protection of the North Sea. Variations of this principle now exist in about 10 federal and provincial Acts and agreements. Canada has also made commitments to the principle in about 20 international agreements and conventions. For example, the principle has been incorporated into the 1997 *Oceans Act*, the 1999 *Canadian Environmental Protection Act*, the 1998 Canada-wide accord on environmental harmonization and the 1999 federal strategy to prohibit bulk water removals.

24.56 Implementing the principle is not straightforward. Interpretations vary from those who believe in avoiding risks and fully erring on the side of caution to those who consider risk taking, the cost effectiveness of different levels of control and economic development. Because cause and effect relationships may not be established, the basis for regulating is more complex to define. As well, because these relationships are more uncertain, there is concern that the precautionary principle is a challenge to science-based regulation and to the allocation of resources based on risk assessment.

Potential legal liability

24.57 Companies may incur major liabilities due to negligence. Since 1990 the courts have held that regulatory authorities have a "duty of care" and that a high standard of care is necessary to fulfill this duty. As a result, authorities are more exposed to claims for regulatory negligence. Further, if an authority's inspection and enforcement program is not credible, the authority may be found liable for failing to meet its enforcement responsibilities where damage arises as a result of its omissions.

24.58 The federal government has already faced a number of court challenges about health and safety; some concern claims for faulty medical devices and tainted blood. Because it has no government-wide approach to avoid or manage litigation, the government is exposing itself to very high risks. A major effort may be needed to develop awareness of legal risks and to co-ordinate a more proactive and strategic approach to litigation.

24.59 To reduce the risk of regulatory negligence, regulatory authorities need to take a variety of measures to provide an appropriate standard of care. For example, they must ensure the following in given circumstances:

- human resources are sufficient;
- decisions to delegate are well-founded;
- risk management strategies are defensible;
- compliance and enforcement policies standards are practical;
- regulation delegated to industry is properly monitored against objectives;
- testing and approval procedures reflect recent technological standards;
- timely action is taken to prevent public harm; and
- timely advice is given to the public on dangerous products or activities.

Need for multi-departmental action

24.60 Some of the most pressing challenges facing health and safety regulatory programs cut across departmental mandates, political jurisdictions and national borders. The Treasury Board's 1995 Framework for Alternative Program Delivery recommended that federal departments establish collaborative arrangements with other departments, other levels of government and other sectors of the economy. Since 1995 there has been a significant increase in the number of collaborative arrangements or partnerships between the federal government and provincial governments.

Some of the most pressing challenges facing health and safety regulatory programs cut across departmental mandates, political jurisdictions and national borders.

24.61 In collaborative arrangements, parties share power and authority in decisions on program and service delivery and need to reconcile their legislative mandates and approaches to managing people. Because power is shared, the establishment of credible reporting, effective accountability, transparent processes and protection of the public interest become more complicated.

24.62 For example, Environment Canada is responsible for administering or helping to administer over 25 Acts and over 40 regulations. To achieve its objectives, it relies extensively on the co-operation of other government organizations, including Health Canada, Agriculture and Agri-Food Canada, and Transport Canada.

24.63 Not surprisingly, conflicts sometimes exist between these organizations about how to protect the environment, while sustaining economic development and competitiveness. In the 1999 Report of the Commissioner of the Environment and Sustainable Development, we reported that federal departments were divided on the degree and significance of risks posed by some individual toxic substances, the interpretation and application of legislation and the nature of their respective roles and authorities. We noted that this division has led to indecision, inaction and strained relations among departments and agencies.

Need for multi-jurisdictional action

24.64 In many instances, federal and provincial governments have constitutional powers over the same matter. This situation is especially true for the environment. The exercise of these powers has resulted in a substantial degree of overlap in activities and uncertainty of the limits of each government's jurisdiction. Increasingly, Environment Canada needs to negotiate bilateral agreements with the provinces to enforce its environmental regulations or equivalent regulations. An example of this approach is the collaborative arrangement between the federal, provincial and territorial governments to reduce smog. Collaboration was necessary because one level of government could not solve the problem alone. The development of the arrangement required extensive consultation (see the Commissioner's 2000 Report, Chapter 4, Smog: Our Health at Risk).

24.65 Our Office has extensively reviewed collaborative arrangements. Chapter 5 of the Auditor General's April 1999 Report, Collaborative Arrangements: Issues for the Federal Government, examined the major issues of effective participation in these arrangements. Chapter 23 of his November 1999 Report, Involving Others in Governing: Accountability at Risk, presented a governing framework for collaborative arrangements. Chapters 5 to 8 of the Commissioner's 2000 Report reviewed collaborative arrangements in the federal government; arrangements between the federal, provincial and territorial governments; and arrangements between the public and private sectors.

24.66 Our Report chapters contain the following findings:

- Departments need to define clearly "who does what." Key problem areas include unclear objectives, poorly defined responsibilities, unclear accountability and weak dispute resolution. Good interdepartmental co-ordination is limited by departments' inability to compel other departments to act, except through persuasion and negotiation.

- To be successful, federal-provincial agreements must offer clear benefits, specify roles and responsibilities, and have clear objectives, time frames and expected results. As well, each partner of the agreements needs to produce an early action plan for its own organizations.

Increased public scrutiny

24.67 Industries affected by health and safety regulatory authorities have traditionally monitored and tried to influence regulatory decisions. Organizations representing a variety of different interests in health and environmental issues are watchful. Recently, Canadians have become more aware of the personal implications of regulatory decisions.

24.68 These trends have partly occurred because many health and safety regulatory issues involve rapid and major changes in science and technology and an increased possibility of significant error. As well, there is greater public sensitivity to potential risks. For example, there is now a significant public interest in new health and food technologies and products, such as medical therapies, transplants of animal organs to humans, genetically-modified foods and natural health products.

24.69 The degree of concern also has increased because of recent events: the failure to protect the safety of the Canadian blood supply system; the British experience with mad cow disease; and the Ontario experience of deaths and illness from contaminated drinking water, and of the closing of several nuclear power plants.

24.70 Access to the Internet also allows for growing scrutiny of regulation and the approval of particular products. Electronic communication also makes it easier to organize associations. As a result, the work of health and safety regulatory authorities can be carefully monitored and lapses can attract major media and public attention.

Extensive requirements of the regulation-making process

24.71 Specific regulations are often used to protect health and safety. Regulations have the force of laws, and they confer legally enforceable rights and impose legally enforceable obligations on organizations and individuals. Regulations are often referred to as delegated legislation because in an Act, Parliament empowers the government to enact specific types of regulations.

24.72 About 85 Acts and 250 regulations are administered by Environment Canada, Health Canada, the Canadian Nuclear Safety Commission, the National Energy Board, the Canadian Food Inspection Agency, and Transport Canada. Their objectives range from protecting the environment to maintaining the safety of food, drugs and nuclear power plants.

24.73 There have been many reviews of the regulatory process and attempts to reform it. The first main documents on problems in the regulatory process include the 1980 report of the House of Commons' Special Committee on Regulatory Reform, the 1979 and 1981 reports of the Economic Council of Canada on reforming regulation, our 1989 Report chapter on the federal regulatory process and the 1992–93 report of the Standing Committee on Finance. These reports contained the following concerns:

- regulations were unnecessarily harming economic performance;

- regulations were not achieving policy objectives;

- regulations were not being implemented with a clear need, accountability and consideration of effective alternatives to regulation;

- regulations were not sufficiently assessed for their economic and social impacts;

- regulations were not developed with sufficient consultation with affected stakeholders; and

- regulations were not effectively enforced.

24.74 In response to these criticisms, the government has made major changes in the process for making regulations. It took the first major measures in 1986. The government developed a regulatory policy and a citizen's code of regulatory fairness, designated a minister responsible for regulatory affairs, and required impact analyses. Furthermore, it established the Office of Privatization and Regulatory Affairs (OPRA) to oversee the regulatory process and published annually a government-wide regulatory plan to identify all proposed regulations.

24.75 The key components of the regulatory policy were clear accountability, public consultation, assessment of regulations to ensure that benefits exceed costs, clear public information on why regulations were needed, evaluation of regulatory programs and a sound legal basis for regulatory action. Exhibit 24.2 identifies the major steps and responsibilities in the making of federal regulations.

24.76 There have been major changes to the administrative oversight of the regulatory process. In 1987 the OPRA had 14 full-time employees and a budget of about $1.9 million. It was dissolved in 1991 and the central oversight process was significantly curtailed. The responsibility for the regulatory process was no longer vested in one minister and the responsibility for ensuring the reliability of regulatory impact assessment was transferred to departments.

24.77 The Regulatory Affairs Directorate of the Treasury Board Secretariat retained the responsibility for making central policy. In 1994-95 the Directorate had 11 full-time employees and a budget of about $1.14 million. Since, it has published about 40 documents that contain technical and policy advice on managing regulatory programs, assessing alternatives to regulation, conducting regulatory impact analyses and developing new regulatory administrative policies.

24.78 The 1994 Treasury Board Secretariat Regulatory Review reflected the delegation of responsibility to departments and agencies. The Secretariat gave some guidance, but allowed departments to determine their own path of regulatory reform and apply their expertise and experience to their particular problems. In 1997 the government discontinued the publication of the government-wide regulatory plan. Each department now publishes its proposed regulations in the annual Report on Plans and Priorities to Parliament.

24.79 In 1999 the responsibilities for the regulatory policy were transferred to the Regulatory Affairs and Orders in Council Secretariat at the Privy Council Office. The Regulatory Affairs Division supports the Special Committee of Cabinet that reviews regulations. The Division provides analysis, briefing and strategic advice on department and agency regulatory proposals. It also supports the government's regulatory reform and research agendas. In 1999-2000 the Regulatory Affairs Division of the Secretariat had 12 full-time employees and a budget of about $1.23 million.

Exhibit 24.2

Major Steps and Responsibilities in the Making of Federal Regulations

Responsibility	Step
Minister and Department	Scrutinize the need for each proposed regulation.
Minister and Department	Consult stakeholders, assess risks, assess alternatives to regulation, assess cost and benefits, prepare compliance and enforcement plan, and prepare the regulatory impact analysis statement.
Department of Justice	Reviews the proposed regulation to ensure a sound legal basis, and respect for the *Canadian Charter of Rights and Freedoms* and the *Statutory Instruments Act*.
Minister	Formally recommends to the Governor in Council the pre-publication of the proposed regulation.
Privy Council Office	Reviews the proposed regulation for consistency with the federal regulatory policy and broader government initiatives. Prepares information on the proposed regulation for the Special Committee of Council.
Special Committee of Council	Reviews the proposed regulation. If approved, the regulation is pre-published in the *Canada Gazette* for at least 30 days, allowing for scrutiny and comment.
Parliament and stakeholders	Review the proposed regulation.
Minister and Department	Collect, review and assess comments on the proposed regulation. If needed, repeat previous steps in process (e.g., scrutinize the need for the regulation).
Privy Council Office	Reviews the documents that contain stakeholder comments on the proposed regulation and the departmental response to the comments. Prepares information for the Special Committee of Council.
Special Committee of Council	Reviews the proposed regulation and makes a final recommendation to the Governor in Council on whether to approve the regulation.
Governor General	Signs the regulation, which is then registered with the Registrar of Statutory Instruments. The regulation comes into force as soon as it is registered within seven days of final approval. It can only be enforced once it has been published in the *Canada Gazette*, Part II, within 23 days of registration.
Standing Joint Committee for the Scrutiny of Regulations	Reviews the new regulation, reports to Parliament on problems it may contain and proposes, if necessary, that it be repealed.

Source: Government Regulatory Process Management Standards: Compliance Guide

Implementing Health and Safety Regulatory Programs

24.80 Our analysis and recommendations are based on our current and previous audits of health and safety regulatory programs.

24.81 Our findings over the past decade on how well the government has been implementing health and safety regulatory programs are presented on pages 24-21 to 24-28.

Improving Regulatory Programs

24.82 The overall objective of health and safety regulatory programs is to proactively protect Canadians from major risks to health and safety — to catch the problem before it happens, and if it happens, to minimize the consequences. Because performance measurement is weak, there is insufficient information to assess the cost effectiveness of health and safety regulatory programs.

Because performance measurement is weak, there is insufficient information to assess the cost effectiveness of health and safety regulatory programs.

24.83 It is also important to keep in mind that there are often complementary and compensating factors that offer a depth of protection. For example, the expertise of managers and employees who work at the Canadian Food Inspection Agency, at Health Canada and in the food supply system protects Canadians. Employees of supermarkets and local stores also screen foodstuffs on shelves for spoilage. Equally important are the skills of shoppers and those who prepare food at home and in restaurants.

24.84 However, despite a wide safety net, major regulatory failures can occur, and the results can be significant. The results of not being able to ensure the safety of the blood supply are an example.

24.85 The objective of the government's regulatory policy is to promote the design and implementation of effective regulatory programs. Over the past decade, our audits of federal health and safety regulatory programs have found many instances where regulatory authorities have not met the expectations of the government's regulatory policy. While effectiveness or exposure to risk cannot be judged solely on the basis of adherence to the policies, well structured and implemented programs increase cost effectiveness and reduce the risk of regulatory failure.

Clarifying priorities and values

24.86 Health Canada's 1999 National Consultations Summary Report found that Canadians believe that "health and safety must take precedence over economic and other considerations." However, the government's regulatory policy contains potentially conflicting requirements. The policy requires that costs and economic objectives be considered when developing and implementing regulatory programs. In our view, there is a need for the government to clarify the priorities of the regulatory policy for health and safety regulatory programs and clarify the balance it has reached to protect Canadians and address costs and other objectives.

24.87 Our concern for priorities of these programs stems from the emphasis on economic considerations in the regulatory policy, potential conflicts of interest arising from the cost-recovery policy, and the government's recent focus on client service.

24.88 The regulatory policy emphasizes the need for regulatory authorities to take into account economic considerations. Since 1986 the policy has focussed attention on the importance of limiting the impact of regulation on the economy. In 1996 the Treasury Board Secretariat directed departments to use a business impact test that would determine the impact of regulations on the private sector.

(continued on page 24-29)

Implementing Health and Safety Regulatory Programs

1. We have used the following major elements of the government's regulatory policy to organize information on the development and implementation of health and safety regulatory programs:

- identification and management of risks to health and safety;
- consultation with citizens on regulatory approaches and with stakeholders on proposed regulatory initiatives and the manner of their implementation;
- adherence to the regulatory process management standards for making regulations;
- management of human resources;
- recovery of costs of services provided to industry that benefit private interests;
- compliance and enforcement of regulations; and
- timely and complete reporting on program effectiveness to Parliament.

Risk Identification and Management

2. **Background.** The federal regulatory policy requires that regulatory authorities demonstrate that a problem or risk exists and that federal government intervention is justified. Sound procedures to identify and manage risks to human health and safety are needed to implement this policy requirement. Such procedures allow regulatory authorities to ensure that their programs focus on priorities, that government intervention is required and that funds and human resources are allocated to the best advantage.

3. Managing health and safety risks to Canadians is a complex task. While risks can be reduced, they cannot be entirely eliminated. It also is difficult to separate Canadian and international aspects of risks. In addition, the scientific assessment and public perception of risks may differ. The extent of resources allocated to reducing a specific risk is often heavily influenced by the public's tolerance of loss of life or injury.

4. As well, the extent to which risks can be reduced depends on factors such as technology, human and financial resources, availability and dissemination of information, choices made by individuals, genetic and socio-economic factors, competing policy priorities, economic competitiveness and trade agreements.

5. **Risk management process.** In October 1997 the Canadian Standards Association published a national standard for Canada, Risk Management: Guideline for Decision-Makers. This standard is similar to the processes in the Treasury Board's 1994 risk management policy. The Association's approach combines scientific assessments of risks with extensive stakeholder consultations and public communication.

6. Risk management, broadly defined, includes the following key elements:

- identifying risks, the risk management team and potential stakeholders;
- risk communication;
- assigning responsibility, authority and resources;
- conducting a preliminary analysis to define the scope of required decisions and risk scenarios;
- estimating the frequency and consequences of the risks;
- estimating the level of stakeholder acceptance of risks and the benefits and costs of containing the risks;
- identifying and assessing feasible risk control options, evaluating options for dealing with residual risks and assessing stakeholder acceptance of residual risks; and
- developing an implementation plan, evaluating the effectiveness of the risk management decision process and monitoring the effectiveness of the risk reduction program.

7. **Patterns of findings.** Our audits have regularly raised concerns about significant risk management in health and safety regulatory programs. In certain cases, they have identified incidents that posed threats to public safety, government personnel and the environment.

8. Our previous audits have found that regulatory authorities were having major difficulties identifying and managing health and safety risks. We found examples of inadequacies in the following:

- risk identification;
- risk assessment methodology;
- information on the extent of risks to health and safety; and
- information on potential liabilities.

9. Our current audits continue to find examples of deficiencies in risk identification and management:

- there is a lack of important information on the incidence of food-borne illness in humans and the prevalence of pathogens in the food supply;
- Health Canada has encountered a number of problems with the surveillance of biological drugs after they have been approved for sale, including the surveillance of adverse reactions and events;
- the Canadian Nuclear Safety Commission needs to strengthen its risk analysis and assessment of licensee performance; and
- the National Energy Board has not assessed the health and safety risks associated with making regulations for onshore pipelines less prescriptive.

10. However, there have been improvements. For example, the Canadian Food Inspection Agency has enhanced its surveillance activities for animal and plant health and is incorporating information gathered from these activities into its risk assessment process. Health Canada has adopted a proactive approach to identifying health and safety risks arising from biologics. Overall, Transport Canada has made satisfactory progress in applying systematic risk analysis for its air navigation regulations and enforcement activities.

11. Government's assessment. In March 2000 the Treasury Board Secretariat consolidated the results of the assessments of comptrollership practices by five pilot departments. The Secretariat's findings are consistent with our own. For example, it concluded the following:

- although risk management is understood intuitively, only a few departments have begun to establish a formal risk assessment framework;
- managers need better tools to assess risks, and there is often little training available; and
- frameworks for the delegation of authority exist, but there is a need to review them in light of greater decentralization.

Consultation and Co-ordination

12. Background. The government has increasingly recognized that it cannot solve problems alone. It has also recognized that wide-ranging consultation is needed to gain the co-operation of affected parties, to develop the most effective regulatory approach and to foster compliance and the achievement of objectives.

13. The 1986 federal regulatory policy stated that Canadians were to be consulted in the making of regulations. This requirement has been reiterated in all subsequent versions of the policy. According to the current policy, regulatory authorities must ensure that "Canadians are consulted and that they have an opportunity to participate in developing or modifying regulations and regulatory programs." This statement sets a clear expectation that Canadians will be consulted on regulatory programs, not just on specific regulations.

14. Patterns of findings. The 1993 report of the Sub-Committee on Regulations and Competitiveness of the Standing Committee on Finance identified consultation as one of the areas that present problems. The subcommittee recommended that there be greater stakeholder involvement in setting regulatory goals and determining the means of achieving them.

15. Overall, we have found that regulatory authorities are investing a lot of time and resources in trying to meet increased public, industry and intergovernmental demands for consultation. In some cases, we have reported that consultation has worked well. For example, in the Auditor General's 1997 Report, Chapter 27, Ozone Layer Protection: The Unfinished Journey, we indicated that stakeholders had expressed a high degree of satisfaction with Environment Canada's consultations.

16. In other instances, consultation could have been significantly improved. Our Commissioner's 1999 Report, Chapter 2, Sustainable Development Strategy Consultations, reviewed the consultation process undertaken by 28 departments and agencies to develop sustainable development strategies. Our review of consultation plans for preparing departmental sustainable development strategies revealed that the objectives of the consultation were generally clear. However, the Commissioner's Report raised the following concerns:

- there were major differences in the quality and comprehensiveness of consultation plans among departments;
- fewer than half of the departments had internal policies or guidelines for consultation;
- departments often did not co-ordinate their consultations with other departments;
- most departments did not consult stakeholders on the design of their sustainable development strategy;
- consultation with other departments was often too late for their comments to be realistically incorporated into any report, other than in a cosmetic fashion;
- few departments evaluated their consultation process; and
- participants received uneven feedback on how their comments were considered.

17. Our current audits continue to find improvements in the consultation process. For example:

- there was extensive consultation on legislative changes relating to the Canadian Nuclear Safety Commission;
- Health Canada has taken steps to identify stakeholders and consult them on proposed changes to regulatory frameworks for some biologics; and
- Transport Canada developed the Canadian Aviation Regulations through a structured, national consultation process.

The Development of Regulations

18. Specific regulations are often used to protect health and safety. The development of regulations is subject to the government's regulatory process management standards. We looked at whether regulatory authorities were following existing standards in our 1989 Report chapter on the federal regulatory process and in our 1993 Report chapters on the development of pulp and paper regulations, the firearms control regulations and parliamentary control over user fees. We did not review these matters in other previous audits or in our current audits.

19. Government self-assessments. In 1995 the Treasury Board Secretariat directed seven major regulatory organizations to implement by December 1996 mandatory quality assurance standards for the regulatory process. These standards were contained in the 1995 Treasury Board's publication, Regulatory Process Management Standards.

20. These organizations were also required to use the standards to determine their compliance with the government's regulatory policy, and report back to the President of the Treasury Board by 31 December 1999. The Board had received self-assessments from the organizations, including four from organizations that focus on health and safety regulatory programs: Health Canada, Transport Canada, the Canadian Food Inspection Agency, and Environment Canada.

21. The Privy Council Office has had the results of the self-assessments consolidated to assess current capabilities on a government-wide basis (see exhibit below). Overall, the consolidation identifies four areas of strength. The areas demonstrate good to advanced management capability. They include monitoring the regulatory environment, identifying potential problems, consulting and communicating with stakeholders, and ensuring interdepartmental co-ordination.

22. Thirteen areas were identified as "opportunities for further development," including better mechanisms for assessing the need for regulation, better capabilities in cost-benefit analysis, more clarity on the approach to resourcing regulatory programs and better performance measurement.

23. Six of the areas where there are opportunities for further development are rated as being in the "early stages of development" (see exhibit below). These areas include performance measurement and accountability, the ranking of problems and issues in order of priority. The remaining areas fall in between the "early stages of development" and "good management capability."

Highlights of Strengths and Opportunities for Further Development Among Regulatory Authorities

Strengths	Opportunities for further development
• Monitoring of the regulatory environment for gathering intelligence on issues and problems, and identifying potential problems. • Consultations with stakeholders, and strong relationships that exist with stakeholders. • Communications with stakeholders and the range of media used to communicate. • Interdepartmental and intergovernmental co-ordination and harmonization.	• **Better mechanisms for assessing the need for regulation and ranking regulatory proposals in order of priority.** • Stronger linkages between regulatory plans and overall departmental planning. • Improved capabilities to assess regulatory and non-regulatory alternatives. • Better capabilities in cost-benefit analysis, the assessment of the regulatory burden and preparation of the regulatory impact analysis statement. • More clarity in the approach to resourcing the delivery of regulatory programs. • **More training programs for regulatory staff in program areas.** • **Better performance measurement systems and accountability for regulatory programs, with a focus on outcomes.** • **More consistent complaint- and dispute-resolution processes.** • **Improved documentation on the regulatory management program and processes.** • **A more formalized approach to ongoing review and improvement.** • Simplification of the process and guidelines of the regulatory process management standards (RPMS). • More standardized reporting by departments and agencies against the RPMS. • Dissemination of best practices.

Note: Bolded "opportunities for further development" are rated as being in the "early stages of development."

Source: Treasury Board Secretariat, Privy Council Office.

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Highlights of Strengths and Opportunities for Further Development Among Regulatory Authorities

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- Monitoring of the regulatory environment for gathering intelligence on issues and problems, and identifying potential problems.
- Consultations with stakeholders, and strong relationships that exist with stakeholders.
- Communications with stakeholders and the range of media used to communicate.
- Interdepartmental and intergovernmental co-ordination and harmonization.

Opportunities for further development

- **Better mechanisms for assessing the need for regulation and ranking regulatory proposals in order of priority.**
- Stronger linkages between regulatory plans and overall departmental planning.
- Improved capabilities to assess regulatory and non-regulatory alternatives.
- Better capabilities in cost-benefit analysis, the assessment of the regulatory burden and preparation of the regulatory impact analysis statement.
- More clarity in the approach to resourcing the delivery of regulatory programs.
- **More training programs for regulatory staff in program areas.**
- **Better performance measurement systems and accountability for regulatory programs, with a focus on outcomes.**
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Source: Treasury Board Secretariat, Privy Council Office.

24. Regulatory impact analysis statement. In August 2000 the Privy Council Office completed a review of the usefulness of the regulatory impact analysis for decision making and the development of regulations. The government's regulatory policy requires regulatory authorities to publish information on the proposed regulation in impact analyses. The information is expected to describe the purpose of the proposed regulation, present the results of reviews of a range of regulatory and non-regulatory alternatives, summarize the results of consultations, indicate the benefits and costs of regulating and describe proposed compliance and enforcement policies and measures.

25. The review focusses on six regulations initiated by major regulatory authorities. On the whole, the review concludes that the requirements of the regulatory impact analyses have changed the regulatory process for the better. In particular, the review indicates that for major regulations, a large amount of information is being provided to the public and government decision makers, and consultation is extensive.

26. However, the review cautions that the descriptions of regulations or problems need to be clearer, assessments of regulatory and non-regulatory alternatives and costs and benefits can be significantly improved, and descriptions of compliance policies and approaches need to be more complete. The review also makes recommendations to improve the relevance and usefulness of regulatory impact analysis statements.

27. We are concerned that the quality of cost-benefit analyses or impact assessments still needs major improvement. In 1989 and 1993 we expressed concerns about the quality of these analyses and assessments. These procedures are intended to provide an objective assessment of whether the social and economic benefits of adopting a regulation outweigh the costs. Without this information it is difficult for the public and decision makers to have as reliable a basis as possible for understanding what the regulation will achieve and how much it will cost.

28. Report of the Public Policy Forum. In February 2000 the Public Policy Forum released a report, Managing Regulation: Policy, Practice and Prognosis. The report presents the results of a multistakeholder roundtable in the fall of 1999 on the federal government's regulatory process and its implementation. The stakeholders included 15 industry associations, five federal departments and agencies, two provincial governments and the Consumers' Association of Canada.

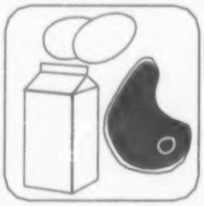
29. According to the report, there is a general consensus that the regulatory policy is sound, but a "disconnect appears to exist between the Policy and its implementation across government departments and agencies."

30. In particular, stakeholders at the roundtable stated the following:

- the regulatory development process often lacks fairness;
- the techniques of regulatory impact assessment, such as cost-benefit analysis, tend to be misused or manipulated to support a position;
- the process is too slow, procedural and rigid;
- there is still a tendency for the government to regulate, not to find alternative solutions;
- the widespread practice of regulation by negotiation and bargaining raises concerns over the consistency of laws and rules.

Human Resources

31. Background. The regulatory policy requires that regulatory authorities "when managing risks on behalf of Canadians. …must ensure that limited resources available to [the] government are used where they do the most good." This requirement is difficult to achieve when risk assessment is weak.



32. The primary human resource challenge facing health and safety regulatory programs is obtaining sufficient funds to hire staff and determining the type and number of staff and their competencies. The programs also need to maintain a sufficient number of inspectors who are well trained in the most up-to-date methods and technologies and led by people with a broad understanding of the work they do. About 5,000 inspectors work in health and safety regulatory programs. Most of them work at Health Canada, the Canadian Food Inspection Agency, and Transport Canada.

33. Pattern of findings. Our previous audits have often found instances of insufficient resources to carry out responsibilities. For example, we found that there were insufficient resources to do the following:

- to oversee in the long term the radiation safety program and nuclear safety compliance;
- to deal with new issues in the national energy sector; and
- to apply and maintain specialized knowledge and technical expertise in deep geological disposal of radioactive waste.

34. Our current audit findings indicate that the Canadian Nuclear Safety Commission, the regulatory regime for biologics of Health Canada and the Canadian Food Inspection Agency are experiencing or will experience some major staffing problems.

35. The situation in Health Canada illustrates the problems and their consequences. Following the 1997 report of the Commission of Inquiry on the Blood System in Canada (Krever Commission), the government announced in 1998 that it would invest $125 million over the next five years to strengthen Health Canada's blood safety program, including regulatory and surveillance programs for related biologics. The government also gave the Department the authority to start hiring 84 full-time employees in 1998-99 and up to a total of 133 by 2002-03.

36. The Department indicates that it has yet to fill 30 of 94 positions allocated to the Therapeutic Products Programme in 1999-2000. Vacant positions were identified as either "staffing in progress" or "staffing to be initiated" and pertained to compliance and enforcement investigations, pre-market and post-market reviews, post-market surveillance, regulatory research and policy development. According to the Department, these shortfalls were the result of a number of factors, including lengthy staffing processes, the unavailability of qualified candidates, non-competitive salaries and the unwillingness of potential candidates to work in biologics in a post-Krever environment.

37. The staffing problems have a significant impact on the Department's ability to manage the workload of pre-market reviews of new biological products and conduct post-market assessments. The result is a significant backlog of new biological drug submissions, failure to meet established performance targets and incomplete post-market assessments. These problems are expected to worsen with the implementation of proposed changes to the regulatory framework for clinical trials. The present 60-day default period for approval will decrease to only 30 days for many clinical trial submissions. While authority was given to increase staff levels, Health Canada expects that it will have difficulty obtaining additional qualified resources in the immediate future. At the current level of staffing, it is estimated that this change will further increase the backlog of new biological drug submissions.

38. Other regulatory authorities are also experiencing difficulties. The Canadian Food Inspection Agency estimates that by 2006, 734 of its indeterminate employees will be eligible to retire, including about a third of inspectors and veterinarians. The Agency is already having some difficulty recruiting for some positions.

39. While the Canadian Nuclear Safety Commission has set priorities and developed a number of important human resource policies and practices, it also faces difficulties in hiring scientific and technical staff. Despite management's initiatives, the present vacancy rate is high, and positions are vacant for long periods. In addition, the employee population is aging and could suffer from a loss of leadership and experience.

40. Government's assessment. The government's assessment of human resource issues in regulatory organizations is consistent with ours. The government has identified major risks in retaining and recruiting inspectors. The Committee of Senior Officials has assessed the government's capacity to carry out its core regulatory and inspection functions. The committee's November 1999 report, A Public Trust: Keeping Canadians Safe and Healthy, identifies a number of key problems facing these functions. It reveals an aging population, many vacancies, few recruits and high attrition rates in some key areas. The data shows that these problems will become more serious in the next few years.

41. The committee's report notes the following:

- The workload of inspectors has increased dramatically, and the cost of training inspectors is high. For example, Transport Canada can spend up to $150,000 and take up to two years to fully train an inspector.
- The government is competing for scarce human resources in a highly competitive market. Key specialists in some diseases command salaries of over $200,000 in private practices. In areas such as aviation and marine engineering, the wage gap between the public and private sectors now exceeds 40 percent. It is unlikely that the government will be able to bridge gaps of this magnitude.
- Career progression is done through promotions to management, but this path is not always the best one for scarce expertise.
- There is concern for the status of personal liability of inspectors and the damage that their decisions could cause. Uncertainty has made some inspectors adopt an extremely conservative approach to risk management.

42. The report notes that the regulatory and inspection community is much older than the public service as a whole and that it has a high departure rate due to high retirement eligibility. As well, based on historical trends, significant non-retirement departures can be expected. Recruits are almost entirely from outside the public service, which maximizes competition with industry. Due to unique accreditation requirements, there is also low mobility between regulatory programs.

43. The report notes that by 2008, about 40 percent of the regulatory and inspection community will be eligible to retire, compared with 33 percent for the public service as a whole. However, it points out that certain inspection groups have a higher rate of projected retirement eligibility. For example, the rate for the group that deals with the food standards regulation is about 48 percent.

44. The report also notes that the role of inspectors has changed significantly. Traditionally, government inspectors examined processes and products, assessed their safety and took required action or designed the rules that must be followed to reduce risks to acceptable levels. Now they educate industry, encourage change, monitor activities and enforce regulations. This current role aims to build expertise in industry and to increase the probability that industry will operate within regulations.

45. The report points out that the new educational and monitoring functions are far more complex for the inspector. The inspection community has found it difficult to interpret the meaning in their operational context of the client service vocabulary, which has been prevalent in the government. Competencies now required of inspectors also include a range of soft skills to teach, monitor activities, encourage changes in attitude and develop new competencies in the industry client.

Cost Recovery

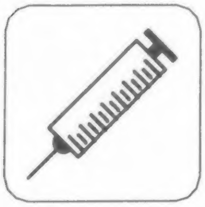
46. Background. Health and safety regulatory programs recover a portion of their operating costs from regulated industries. Information indicating the proportion of program funding that is based on cost recovery is not readily available. We estimate that health and safety regulatory programs collected about $154.6 million in 1997-98. Depending on the legislation, these funds can be re-spent by regulatory authorities, or they become part of government general revenues.

47. In 1999-2000, the Canadian Food Inspection Agency collected about $54 million (or 13 percent) of its total expenditures of about $416 million. It is authorized to re-spend these funds. Health Canada's Therapeutic Products Programme, which regulates drugs and medical devices, recovered about $40 million (or 63.5 percent) of its total expenditures of $63 million. All of these funds are re-spendable by the department.

48. In 1997-98, the National Energy Board recovered about $24.7 million (or 88 percent) of its total expenditures of some $28 million. These funds became part of the government's general revenues. The Atomic Energy Control Board, now the Canadian Nuclear Safety Commission, collected $30.8 million (or about 70 percent) of its total expenditures of $43.8 million. These funds also became part of the government's general revenues.

49. The federal government states that it will only initiate cost recovery for an activity that is legitimate and necessary, that is not available in the private and voluntary sectors, and that offers identifiable recipients direct benefits beyond those received by the general public. In 1994 the government made cost recovery a priority for departments and agencies. It undertook this initiative, while cutting spending to eliminate the deficit. Fees were introduced for many services previously offered at no cost.

50. Ministers are responsible for implementing and amending user charges in their area of responsibilities. By linking service costs to the fees it charged, the government expected that industry could scrutinize fees to ensure that they were fair and that the services were being delivered efficiently. The President of the Treasury Board is the point of contact for clients who feel that departments have not given them a fair hearing in the fee-setting process.



51. The objectives of the cost-recovery policy are the following:

- to promote the efficient allocation of resources;
- to promote an equitable approach to financing government programs, mandatory or otherwise, by fairly charging clients or beneficiaries who benefit from services beyond those enjoyed by the general public; and
- to earn a fair return for the Canadian public for access to, or exploitation of, publicly owned or controlled resources.

52. The policy requires that departments and agencies do the following:

- undertake meaningful consultations with clients throughout the fee-setting process, including the conduct of impact assessments and establishing a dispute-resolution process;
- follow appropriate costing and pricing practices;
- treat all user charge revenues as public funds; and
- spend these revenues only with the prior approval of Parliament and the Treasury Board.

53. Pattern of findings. We have reported to Parliament a range of major concerns about the implementation of the cost recovery policy. We reviewed the implementation of user fees in our 1993 Report, Chapter 25, Parliamentary Control Over the Raising of Revenues by Fees. More recently, we comprehensively reviewed the management of user fees by Agriculture and Agri-Food Canada, the Canadian Grain Commission and the Canadian Food Inspection Agency. The findings in our September 1999 Report, Chapter 11, Agriculture Portfolio — User Charges, illustrate our concerns.

54. The concerns that we reported included instances of the following:

- inadequate legislative frameworks;
- inconsistent cost identification and allocation methods;
- a lack of specific and enforceable guidelines to price services;
- unclear definitions of private and public benefits;
- a lack of co-ordination by central federal agencies;
- a lack of consolidated information for planning and reporting;
- a lack of information on user charges to concerned parties, including fee revenues not published in the annual budget;
- inadequate impact assessments;
- a lack of an open, clear and independent appeal process for those affected by user charges; and
- a need for broader consultation on service charges to take into account the interests of the public and of those who pay fees.

55. As part of the current audit of Health Canada's regulatory regime for biologics, we examined cost recovery for reviewing biological drugs. Since 1994-95 the Department partially recovers from the manufacturer the costs of reviewing biological drugs for market approval. The drug industry expected that cost recovery would help the Department meet established performance targets of shorter duration. However, we did not find clear objectives linking cost recovery and shorter approval times. For new biological drugs approved in 1999, the Department took an average period of 328 days (compared with a performance target of 180 days) to review priority-status submissions and 545 days (compared with a performance target of 300 days) to review non-priority status submissions.

56. In its recent evaluation of the cost-recovery initiative, the Department found that it is difficult to separate public and private benefits of cost recovery for biological drugs.

57. Report of the Standing Committee on Finance. In June 2000 the House of Commons' Standing Committee on Finance published its review of cost-recovery in government, Challenge for Change: A Study of Cost-Recovery. The committee examined whether the Treasury Board's cost-recovery and charging policy is being implemented consistently in the government and whether the Board's policy is sound. The concerns of the committee are similar to ours.

58. The committee found that the policy generally conforms to sound economic practices. However, government departments are not implementing the policy consistently, and central supervision and dispute resolution is ineffective or absent. The committee raised concerns that user fees are perceived as a tax, rather than prices for services, and that departments do not seem to be following the guidelines originally set out in the cost-recovery program.

59. The committee also reported that some groups are concerned about the potential threat to the integrity of regulatory programs because of the reliance of regulatory authorities on cost recovery for funding.

60. The committee concluded that a government-wide assessment of the cost and benefits of user fees is needed. Treasury Board Secretariat officials told the committee that a review of the cost recovery policy is under way and should be completed by the winter of 2001.

Compliance and Enforcement

61. Background. Regulations set legal process or requirements for industries involved in activities that affect health and safety. To be in compliance, a company must meet these requirements. To ensure compliance, regulatory programs need to ensure that those who must comply with the laws understand what is expected of them and that the laws are enforced in a fair, predictable and consistent way. Regulations have to contain provisions that are consistent, understandable, measurable and enforceable.

62. The complexity of enforcement depends on the nature of a regulation. The age of a law or regulation often determines the quantity and quality of compliance information that is available. Some regulations cover an ongoing activity in a specific area, such as the production of pulp and paper. Other regulations may refer to more transient activities that are more difficult to monitor, like the transport and disposal of hazardous waste. Lastly, regulations can impose complex technical requirements; the procedures to verify compliance with these requirements can also be complicated.

63. Compliance and enforcement also are areas significantly affected by technological changes, pressures from economic competitiveness, insufficient human resources, public scrutiny and reliance on collaborative arrangements with the provinces and territories.

64. Inspection programs verify compliance with the laws and their regulations. A plan identifies the type and frequency of inspections and monitoring activities that have to be conducted. The plan usually considers priorities, historical problems, operational factors and regional variability. Inspections can also take place in response to specific incidents.

65. Departmental policies or procedures list a number of actions that can be taken to remedy situations of non-compliance. These actions range from verbal and written warnings to criminal prosecutions. According to the report of the Committee of Senior Officials, A Public Trust, regulatory authorities are increasingly focussing on achieving compliance by seeking conformity with the law through educational programs, the encouragement of technology transfers and self-evaluation.

66. Pattern of findings. Our previous audits revealed recurring weaknesses in compliance and enforcement, including the following:

- unclear objectives for compliance with legal and policy requirements;
- inadequate identification of the regulated community, an ineffective process for determining the companies to inspect, and inconsistent inspection coverage of the regulated community;
- a lack of using risk assessment to focus inspection activities;
- inadequate information on the incidence of non-compliance and related consequences;
- inadequate implementation of audit and inspection programs with results fed into performance measures;
- insufficient random inspections to detect and prevent incidents of non-compliance;
- over-reliance on voluntary compliance with limited verification to demonstrate that this reliance is justified; and
- an absence of national reviews to ensure that different regions use consistent procedures.

67. Our current audits continue to find deficiencies in ensuring compliance with health and safety regulatory requirements. For example, the Canadian Nuclear Safety Commission's compliance and enforcement framework is incomplete. It needs to promptly develop outstanding regulatory documents and implement its compliance and enforcement policy.

68. For problems of non-compliance, the Canadian Food Inspection Agency's policy requires that inspectors take action to ensure compliance in the shortest time frame and to prevent the problems from recurring. Our review of a sample of cases noted that the compliance actions were not sufficient to achieve the Agency's goal because of limitations in legislation or a failure by the inspector to take more serious compliance action.

69. Our audit of Health Canada's regulatory regime for biologics contains findings about establishments that process and distribute semen for assisted conception. These findings illustrate the risks posed by incomplete inspection approaches. In June 1996 Health Canada implemented regulations governing these establishments. However, it started to monitor and inspect them only in March 1999. Although an accreditation process and inspection regime was intended to be part of the 1996 regulatory framework, these activities did not occur. There were no plans established before 1999 for the inspection of semen processing facilities, nor were there any standard operating procedures for inspection.

70. In March 1999 problems identified by an Ontario human semen bank initiated a national investigative inspection by Health Canada of all known semen establishments that following summer. The Department found that 43 of the 51 establishments under investigation did not fully comply with the regulations. Of these 43, 17 did not perform the required tests for specific infectious diseases and more than half did not maintain sufficient records for Health Canada to determine that they had done the required tests. As a result, the Department detained much of the semen supply for assisted conception in Canada, which created considerable anxiety among recipients.

71. Although problems continue to exist in health and safety regulatory programs, there have been improvements. In April 1999 Health Canada established a program to inspect all known semen establishments, and it began to formulate and test standard operating procedures for investigative inspections. In addition, the Department has given formal training to compliance officers to ensure that they have the necessary knowledge and skills to do their work. At the Canadian Food Inspection Agency, four of the five alternative service delivery arrangements for animal and plant health have devoted considerable attention to monitoring, controlling and auditing compliance. Transport Canada's Air Navigation Services and Airspace Branch has completed over 150 audits and inspections to date and identified 130 findings and observations. The Branch's enforcement actions have included counselling, monetary penalties and license suspensions.

Reporting on Effectiveness

72. Background. The Treasury Board requires departments to prepare performance reports in the fall of every year. The reports, as part of the government's Main Estimates, are tabled in the House of Commons and referred to the appropriate standing committee. They are intended to provide information on achieved results. Some federal entities have legislated reporting requirements, such as the Canadian Food Inspection Agency which is required to report performance in its annual report.

73. Pattern of findings. Our previous audits of reporting on the effectiveness of health and safety regulatory programs identified serious weaknesses, such as the following:

- a lack of specific requirements for reporting;
- an inconsistency and incompleteness of data;
- an absence of common protocols to measure and estimate incidents to make results comparable;
- an insufficient verification of actual results; and
- a lack of performance indicators to support statements of achieved results.

74. Our audits also identified instances where Parliament was not adequately informed:

- On the results of national efforts on smog reduction, Parliament did not receive meaningful, comprehensive and timely information about action on the promises made to Canadians in 1990.
- On the results of agreements under the *Canadian Environmental Protection Act*, Parliament received incomplete and outdated information.
- On the achievement of program objectives for the disposal of hazardous waste, Parliament did not receive information on actual spending, achieved or likely achievable results and constraints.
- On federal food safety activities, Parliament did not receive a description of the objectives of the federal food safety system, the roles of involved departments, and the results achieved;
- On the animal and plant health inspection program, Parliament received inadequate information to understand and assess the program's performance and response to serious outbreaks of diseases and pests.
- On nuclear power plants and licenses for prescribed substances and radioisotopes, Parliament received limited information on licensing actions and the number of compliance inspections.

75. Our current audit findings continue to find deficiencies in reporting on effectiveness. For example, The *Canadian Food Inspection Agency Act* requires the Agency to prepare a corporate business plan and an annual report to Parliament. The business plan must specify objectives and expected performance against these objectives. The 1997-2000 plan contains only limited information on milestones, time frames, expected level of effort, and measures of goal achievement. The information provided is not adequate because it does not allow Parliament and the public to determine how well the Agency is performing.

76. The Canadian Nuclear Safety Commission, like other nuclear regulators, has had difficulty in reporting performance. While its annual report contains many measures, the Commission needs to develop meaningful performance expectations and report measures within a clear context and strategy.

77. Transport Canada has made progress in reporting on effectiveness by publishing annual reports of the Air Navigation Services and Airspace Branch. However, significant deficiencies exist in ensuring the quality of the safety data. In 1997 we indicated that Transport Canada should conduct formal reviews of the quality of the air safety data that it receives from NAV CANADA. The Department has still not conducted or planned any formal review of such data.

78. The incident rate for losses of separation (the spacing required between aircraft) is a primary indicator of safety performance for an air navigation service provider. To be useful for both management and accountability purposes, it is critical that this data be timely and correct. The Department has not yet reconciled the reports of the Civil Aviation Daily Occurrence Reporting System (CADORS) with data from the incident-reporting system operated by the Transportation Safety Board of Canada. Further, the Department's audit regime for NAV CANADA does not include tests of the completeness and accuracy of the CADORS reports by reference to primary sources (radar and voice tapes). An other jurisdiction that has carried out these tests has found that self-reporting systems tend to understate the occurrence of incidents.

(continued from page 24-20)

24.89 This economic emphasis also appears in the most recent revision of the policy in November 1999. The policy requires regulatory authorities to minimize adverse impacts on the capacity of the economy to generate wealth and employment and to impose no unnecessary regulatory burden. In addition, the authorities must ensure that information and administrative requirements are limited to what is absolutely necessary and that they impose the least possible cost; the special circumstances of small businesses are addressed; and parties proposing equivalent means to conform to regulatory requirements are given positive consideration.

24.90 The study of cost recovery by the Standing Committee on Finance raises a concern for the effect of cost recovery on the priorities of health and safety regulatory programs. The concern is that the government's policy on cost recovery to fund regulatory efforts may be creating a potential conflict between the public interest and the interest of private organizations that are paying fees to help fund regulatory programs. For example, the committee was told about concerns regarding the effect of cost recovery on the drug review process. The Auditor General told the committee that "as there is a greater dependency on fee recovery, a client-provider relationship could be established, and in some areas that may not be entirely healthy." He indicated that there is a need for direction on how to avoid potential conflict of interest.

24.91 The government has focussed on introducing the concept of client service as a public service value. A Public Trust: Keeping Canadians Safe and Healthy, the November 1999 report of the Committee of Senior Officials, reviews the consequences of this concept for the inspection and regulatory community. The report notes that adoption of the concept "has been driven by a wide range of government initiatives and directives, providing a pervasive message to all public servants." It also reviews the difficulties that the community encountered in implementing this direction. The report concludes that a key issue for the community was "the need to shift the language for this group away from the 'client service' vocabulary, towards a discussion of 'Protecting the Public Interest'." The clarification is also needed because government is often both a regulator and, directly or indirectly, a promoter of the industries that it regulates.

24.92 Our October 2000 Report, Chapter 12, Values and Ethics in the Federal Public Sector, and the 1996 Report of the Task Force on Values and Ethics in the Public Service (Tait Report) raise concerns about giving client service equal or more emphasis than the public interest.

24.93 By clarifying the priorities of its policies, the government may also address the continuing concerns that stakeholders have about the regulation-making process. While transparency in decision making is required, the government needs to determine whether these concerns stem from its cost-recovery policy and its consultation process, which is encouraging expectations that cannot be met. For example, it needs to ensure that it is not raising the expectation that regulatory authorities are accountable to industry and other stakeholders.

24.94 **The federal government should explain to Canadians and the government's regulatory and inspection community its priorities for health and safety regulatory programs, particularly the balance that the government has reached to protect Canadians and address budget, social, economic and trade objectives. The government should revise its regulatory policy and other policies to reflect this emphasis.**

Many of the difficulties faced by regulatory authorities can be attributed to a lack of comprehensive systems to identify risks.

24.95 Many of the difficulties faced by regulatory authorities can be attributed to a lack of comprehensive systems to identify risks. Surveillance systems need strengthening and important baseline data needs to be collected, while safeguarding the privacy of individuals. Expert advisory committees can be used as a supplement to direct surveillance or as a substitute in situations where little data exists, such as the effects of new biotechnologies.

24.96 Without these improvements, it will be difficult for regulatory authorities to scientifically assess risk, conduct cost-effective audits and inspections, determine the human resources they need or allocate staff, and assess whether they are achieving objectives or whether their inspection programs are working. As well, the authorities' exposure to liability will become more difficult to manage.

24.97 In the absence of data from surveillance systems to focus the allocation of resources, authorities may have to respond to funding reductions by spreading the cuts across activities. New regulatory problems may further strain resources, for example, the monitoring of new medical and biological technologies, such as transplants of animal tissue to humans and the prevention of microbial contamination of food.

24.98 The lack of a sound risk identification system means that health and safety regulatory programs are vulnerable to crises and public outrage at regulatory failures. It may also make it more difficult to effectively apply the precautionary principle. As well, there is no solid basis for discussions with industry or special interest groups.

24.99 Government initiatives to improve risk management are in their preliminary stages. The 1997 Report of the Independent Review Panel on Modernization of Comptrollership in the Government of Canada identifies risk management as one of the key elements of modern comptrollership. In 1998 the Treasury Board Secretariat prepared an action plan to develop a "results-oriented approach to risk management."

24.100 The Privy Council Office is leading a task force to design a comprehensive framework for the application of the precautionary principle. The objective of this initiative is to improve the predictability, credibility, and consistency of precautionary approaches, which would ensure adequate, reasonable and cost-effective application of the principle. This framework is needed to guide regulatory authorities on how to incorporate the precautionary principle into their risk identification and management procedures. Seven interdepartmental working groups have been established to look at key issues, such as the scientific basis for applying the principle, transparency, accountability and public involvement. The Privy Council Office expects to present an endorsed government position on the precautionary principle by the spring of 2001.

24.101 The Department of Justice is responsible for a legal risk management initiative. The objective of its work is to develop a framework for managing litigation that will minimize overall costs to the government. From the fall of 2000 to 2003 the Department is designing and implementing a framework and identifying the need for further work.

24.102 These initiatives will help upgrade policies on risk identification and management in the government. However, we believe that without a major effort to improve surveillance systems and obtain baseline data, the initiatives will not be successful. The development of more reliable and comprehensive databases on the prevalence of health and safety risks will require substantial human and financial resources. To this end, the Privy Council Office, the Treasury Board and the regulatory authorities could jointly

F5

identify necessary improvements and resources.

24.103 As part of the effort to enhance the capability of regulatory authorities to identify and manage risks, we believe that there now is a need for providing organizational stability and rebuilding programs based on risk assessments. In recent years some major health and safety regulatory programs have seen their funding reduced. They also have undergone major reorganizations to improve their effectiveness. In many instances, these changes have been accompanied by loss of expertise due to downsizing. Further, health and safety regulatory authorities face a major loss of staff in the near future, and they may have great difficulty in competing with the private sector for new expertise.

24.104 The federal government should ensure that regulatory authorities have a sound capability to identify risks to health and safety, in particular effective surveillance systems, databases and risk assessment methodologies.

24.105 The federal government should strengthen health and safety regulatory programs by basing the allocation of funding and staffing on risk assessments.

24.106 The federal government should take major steps to help regulatory authorities manage the difficult human resource issues that they face.

Safeguarding the credibility of science in government

24.107 The public's confidence in government's use of science and technology to protect the health and safety of Canadians has been shaken by recent crises. The continued lack of sound impact assessments of proposed and existing regulations also undermines the credibility of government science. Without credible science, health and safety regulatory programs can be challenged as untrustworthy sources of information and subservient to political policy or special interests.

24.108 To enhance the credibility of regulatory efforts, the government has established advisory committees of independent experts to provide advice. For example, the Canadian Biotechnology Advisory Committee advises ministers on the ethical, social, economic, regulatory, environmental and health aspects of biotechnology and examines the potential benefits and risks of emerging biotechnology. It also raises public awareness and engages Canadians in discussions on biotechnology. In establishing the committee, the government pointed out that "advisory committees are increasingly the way of the future in biotechnology, and Canada joins forward-thinking countries such as the [United States, the United Kingdom] and the European Union, in adopting this approach."

24.109 These committees help to enhance the credibility of science in government (see our October 2000 Report, Chapter 12). They could also be used to advise parliamentarians, ministers and departments on identifying priorities and objectives for risk reduction, developing or improving risk assessment methodologies, assessing the effectiveness of regulatory programs, and other matters.

24.110 The credibility of science in government has also been damaged because the government has not established effective recourses for scientists to voice concerns in good faith. These recourses are needed when a scientist believes that regular departmental mechanisms are insufficient and that the public's health and safety is at risk. In September 2000 the Federal Court, referencing a Supreme Court decision, decided that public servants can publicly express concerns when the government is engaged in illegal acts or if government policies jeopardize the life, health or safety of the public. The court raised

The public's confidence in government's use of science and technology to protect the health and safety of Canadians has been shaken by recent crises.

two caveats: the criticism should not have an impact on a public servant's ability to perform effectively, and other avenues of redress have to be exhausted.

24.111 We believe that public servants should not be put in the position where they believe that their only recourse is to express their concerns publicly. Matters of ethical concern need to be effectively and honestly addressed in an organization. But to do so, the avenues must be clear, effective and trustworthy. We suggested in our October 2000 Report, Chapter 12, that the government establish recourse mechanisms to allow for public servants to intervene in good faith. We believe that such mechanisms will enhance the credibility of health and safety regulatory programs.

24.112 To enhance the scientific independence and credibility of health and safety regulatory programs, the regulatory authorities should expand the use of independent expert scientific advisory committees.

24.113 The federal government should revise the requirements of its regulatory policy to incorporate the best practices of using these committees.

24.114 The federal government should establish standards for conducting risk analysis, particularly for measuring and comparing risks.

24.115 The federal government should ensure that regulatory impact assessments are conducted objectively, using the best available procedures.

24.116 The federal government should establish avenues for recourse to allow employees of federal health and safety regulatory authorities to voice concerns in good faith about risks to health and safety.

Increasing public dialogue

24.117 The government cannot eliminate risks entirely. In some areas, individuals may choose to expose themselves to risks and, government intervention to protect them may be unwanted or may violate their legal rights. Nonetheless, public concern for health and safety risks plays a major role in regulatory decisions. Crises or regulatory failures heighten these concerns.

24.118 It is important to recognize that the concern of citizens and experts for risks may differ. In general, expert assessment of risks is based on several, often unstated, assumptions that include the following:

- public policy focusses on reducing risks to an acceptable level;
- statistics on the level of death and injury may be used to define acceptable levels of risk; and
- public policy focusses on the allocation of scarce resources to save the most lives and avert the most injuries, starting with the most serious.

24.119 In contrast, public concern for risks usually involve assessments that use more personal factors. The focus is on the actual or potential death or injury of family and friends, not statistics. The public asks whether the death or injury was preventable, and if so, why did the responsible authority, often the government, not take the necessary preventive action.

24.120 The increasing adoption of the precautionary principle reflects public pressure on the government to prevent, eliminate or reduce risks, even though scientific evidence may be incomplete and major costs may be incurred.

24.121 Because of the potential differences between public and expert assessments of risks and the growing use of the precautionary principle, the government needs to clearly explain its regulatory policies to Canadians. In recognition of the need to be more transparent and to involve Canadians in government decision making, the Privy Council Office and the Treasury Board Secretariat are preparing a new policy on consultation and citizen engagement. Solving health and safety regulatory problems requires more citizen engagement.

24.122 To help Canadians make choices, the government needs to give them general information on the nature of risks, its definition of risk management, the way it is applying the precautionary principle, and how it is maintaining the credibility of science-based regulation. The government also needs to explain that focussing on one set of risks may involve the diversion of financial and expert resources from other regulatory tasks perceived as equally important.

24.123 For specific risks, the government will need to focus on "risk communication" — providing information, particularly when there is an imminent risk to health and safety, on the scientific data available, the potential for injury or loss of life and the costs and benefits of government intervention.

24.124 For example, it is envisioned that the Canadian Biotechnology Advisory Committee will publish documents on specific topics of interest, particularly in newly developing areas, to give Canadians factual, balanced information. As well, the committee will be expected to ask Canadians for their views on specific issues during public consultations.

24.125 The government may also have to address increasing demands for consultation on approvals for individual products, rather than consultation only on regulations that apply to a group of products. Meeting the demands for such consultation will require difficult trade-offs between ensuring health and safety and slowing down the regulatory process.

24.126 The federal government should effectively consult Canadians and provide them with information on what is involved in reducing health and safety risks and what the government means by risk management and the precautionary principle.

Increasing accountability for interdepartmental co-operation

24.127 The 1995 Report of the Clerk of the Privy Council to the Prime Minister on the Public Service of Canada recommends more effective ways to manage working relationships between departments.

24.128 The report noted that the public service must develop ways to better address horizontal, cross-cutting issues, including implementing the right system of incentives and accountability — one of the major challenges. Finding ways to effectively address horizontal issues is a difficult task. The report observed that public service practice in this area has not lived up to the concepts of interdepartmental collaboration that are professed, and a better job must be done.

Increasingly, it is being recognized that unilateral action of one department cannot solve many major regulatory problems in health and safety.

24.129 We have described an accountability framework for partners that work to meet common objectives (see our Commissioner's 2000 Report, Chapters 5 to 8, Partnerships for Sustainable Development). The framework includes credible reporting, effective accountability mechanisms, transparent processes and protection of the public interest. We have noted that productive working relationships are not easily developed or maintained. They require special effort by all parties.

24.130 Increasingly, it is being recognized that unilateral action of one department cannot solve many major regulatory problems in health and safety. Departments share responsibilities for many regulations. The achievement of one entity's objectives depends on the co-operation of others. For example, the Biotechnology Ministerial Co-ordinating

Committee addresses issues that cut across the mandates of seven federal ministers.

24.131 The responsibilities of ministers and their departments are stated in legislation. However, there is also a responsibility to serve the broader public interest. As the 1996 Report of the Task Force on Managing Horizontal Policy Issues concludes, "it is these collective responsibilities, which transcend individual mandates, that challenge ministers and their departments to look beyond their narrow interests and to recognize the interdependence of many policy issues."

24.132 The task force recognized that a significant cultural shift would be needed to manage issues where the achievement of objectives depends on interdepartmental co-operation. In the report, it indicated that this undertaking "requires a long-term commitment and consistent actions supporting co-operation, collegiality, and collaboration within and across government. If priority files are managed horizontally, there will be a shift in the Public Service culture towards horizontal approaches. If they are not, real and lasting change is unlikely."

24.133 To encourage this cultural shift, the task force recommended the following:

- senior management and central agencies need to ensure that support for interdepartmental collaboration and teamwork is consistently part of their communications and is reinforced in planning and decision making;
- performance contracts and appraisals of executives and policy staff need to include a section on teamwork and the promotion of team-based approaches as an ongoing priority; and
- an aptitude for and experience in collaborative policy development need to be recognized as an important criterion for promotion and recruitment, particularly at senior levels.

24.134 Many major objectives of health and safety regulatory authorities can only be achieved with interdepartmental co-operation and action. Therefore, we believe that these authorities are good candidates for implementing the recommendations of the task force and for developing the right system of incentives and accountability called for by the Clerk of the Privy Council.

24.135 The government could begin by identifying objectives that require significant co-operation among departments to be achieved. A significant part of appraising the officials of these regulatory programs could include whether or not they have reached these joint objectives. As well, the government could annually report on the overall effectiveness of regulatory programs.

24.136 The federal government should identify major health and safety objectives that, to be achieved, require significant interdepartmental co-operation and ensure accountability for achieving them.

24.137 The federal government should submit an annual report to Parliament on the overall effectiveness of health and safety regulatory programs and the extent to which they have the necessary financial and human resources. This report should include an assessment by lead regulatory authorities on the achievement of objectives that require significant interdepartmental co-operation.

24.138 The performance of senior managers of each contributing regulatory authority should be assessed based on the extent to which joint objectives are achieved.

Encouraging federal-provincial co-operation

24.139 Under the Constitution and in practice the federal government often shares responsibility for the protection of health and safety with the provinces. The problems in achieving co-operation and accountability at this level are well known. It is for the most part a political challenge.

24.140 However, co-operation is fast becoming mandatory, rather than a matter of choice. Increasingly, risks are of a global nature and multinational action is required. Standards and regulatory approaches among countries are being harmonized through trade treaties or international agreements. This trend means that Canadian regulatory authorities need to co-operate to effectively present a Canadian position in international exercises for setting standards. For these reasons, it is in the interest of all parties to work together and to participate in the development of collaborative arrangements on national health and safety issues. The trend also means that the process of risk identification, cost-benefit analysis and impact assessment has to begin well before international standard setting exercises if Canadian representatives are to be provided with the best objective information. It is also important that departmental experts be present at these exercises.

24.141 The federal government should develop collaborative arrangements with the provinces and territories to reduce risks to the health and safety of Canadians and assess the achievement of joint objectives. The arrangements should also allow for the effective development of a Canadian position in international work-sharing and standard-setting exercises.

Conclusion

24.142 Health and safety regulatory programs are encountering major challenges. They have undergone major reorganizations, funding reductions that have been partly reinstated, and they face major problems in retaining and recruiting needed expertise. They also operate in an environment of increasing legal liability, greater reliance on third parties to set regulatory standards and a growing need to ensure that Canada's approach to regulation is consistent with international trends.

24.143 At the same time, the credibility of regulation based on science is being questioned because of recent major regulatory failures and may be in increasing conflict with the growing application of the precautionary principle.

Major improvements in the structure and implementation of health and safety programs are needed government-wide.

24.144 In this environment, we are concerned about our recurring findings that health and safety regulatory programs are encountering major difficulties in meeting the expectations of the government's regulatory policy. To meet these expectations action is required government-wide as well as by regulatory authorities. This chapter focussed on the need for government-wide action.

24.145 The government needs to explain how it is balancing the objective of protecting the health and safety of Canadians with other social, economic and trade objectives. Major improvements in the structure and implementation of health and safety programs are needed government-wide. For example, the government needs to identify and manage risks to health and safety, ensure that sufficient expertise is available, provide sound assessments of the impact of proposed major and existing regulatory actions, promote joint accountability for significant objectives that require interdepartmental co-operation, and report on the effectiveness of the programs.

Privy Council Office's response: *Protecting the health and safety of Canadians is a core responsibility of the government. This responsibility is exercised through statutes adopted by Parliament which state the government's obligations, objectives and standards in this regard.*

The government adopted the regulatory policy to support ministers and Cabinet in making informed decisions on the development and implementation of regulations which are in the best interests of Canadians. The principles and requirements stated in the regulatory policy have been applied by the government, subsequently endorsed by the Organization for Economic Co-operation and Development, and followed by other jurisdictions in formalizing their own regulatory governance regimes.

While it believes the regulatory policy is sound, the government shares the Auditor General's concern and has recognized the need to ensure that regulatory authorities have the capacity to meet the expectations of the policy — to properly develop and to appropriately implement regulations and regulatory programs. As evidenced in this audit, the government already has identified many of the issues raised and undertaken significant good work to address these shared concerns. In particular, the government is committed to strengthening risk management, monitoring and reporting on the effectiveness of federal regulatory programs, and ensuring the continued integrity of our health and safety programs.

The government is pleased with the recognition by the Auditor General of the good practices which exist within departments and agencies. The government will build on this work by continuing to identify and disseminate best practices in such areas as managing risks; using advisory committees and a range of public policy instruments; measuring outcomes; and communicating and consulting with Canadians.

Clear and appropriate lines of accountability exist for reporting through Parliament to Canadians on the effectiveness of federal health and safety programs. Each minister is accountable to Canadians, through Parliament, for the effective and efficient operations of his or her portfolio, and each minister reports to Parliament on their department's or agency's plans, priorities and performance.

Through the Speech from the Throne and federal budgets, the government has articulated a comprehensive set of policies and measures aimed at "building a higher quality of life for all Canadians". Well-designed and well-managed regulations are in everyone's interests, and can contribute to this goal. For this reason, the Government of Canada is constantly seeking ways to improve the effectiveness and efficiency of its regulations and regulatory programs and welcomes this contribution of the Auditor General.

About the Audit

Objectives

We undertook this audit to identify trends in approaches to health and safety regulatory programs and the challenges they face. We also wanted to assess the pattern of findings of current and previous audits of how well the government has been implementing health and safety regulatory programs. Our third objective was to make recommendations that would strengthen the broad structure and implementation of the programs.

Scope

Our findings are based on the results of our current audits of food inspection programs, nuclear power plant regulation, the regulatory regime for biologics of Health Canada, and follow-up audits of animal health and plant protection, safety regulation for the air navigation system of Transport Canada, and onshore pipeline regulation. They are also based on audit findings from previous Reports of the Auditor General and the Commissioner of the Environment and Sustainable Development. As well, we have taken into account the findings of parliamentary committees, government reports and reports of non-government organizations.

Criteria

We used key elements of the government's regulatory policy and the regulatory process management standards to organize patterns of findings on how well the government is developing and implementing health and safety regulatory programs. We looked at the following issues: risk identification and management, consultation and co-ordination, adherence to the government's standards, human resource management, cost recovery, enforcement and compliance, and reporting on effectiveness.

Based on the government's policies, we expected the government and lead health and safety regulatory authorities to ensure that they do the following:

- reliably identify, manage and communicate risks;
- sufficiently consult Canadians and stakeholders and co-ordinate their efforts with other departments;
- adhere to the government's regulatory process management standards;
- obtain sufficient human resources;
- reasonably implement the government's cost-recovery policy;
- enforce regulations; and
- reliably report to Parliament on the effectiveness of regulatory programs.

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Appendix A

Government of Canada Regulatory Policy, November 1999

Policy objective

To ensure that use of the government's regulatory powers results in the greatest net benefit to Canadian society.

Policy statement

Canadians view health, safety, the quality of the environment, and economic and social well-being as important concerns. The government's regulatory activity in these areas is part of its responsibility to serve the public interest.

Ensuring that the public's money is spent wisely is also in the public interest. The government will weigh the benefits of alternatives to regulation, and of alternative regulations, against their cost, and focus resources where they can do the most good.

To these ends, the federal government is committed to working in partnership with industry, labour, interest groups, professional organizations, other governments and interested individuals.

Application

This policy applies to federal regulatory authorities.

Policy requirements

When regulating, regulatory authorities must ensure the following:

- Canadians are consulted and have an opportunity to participate in developing or modifying regulations and regulatory programs.
- Authorities can demonstrate that a problem or risk exists, federal government intervention is justified and regulation is the best alternative.
- The benefits outweigh the costs to Canadians, their governments and businesses. In particular, when managing risks on behalf of Canadians, regulatory authorities must ensure that the limited resources available to government are used where they do the most good.
- Adverse impacts on the capacity of the economy to generate wealth and employment are minimized and no unnecessary regulatory burden is imposed. In particular, regulatory authorities must ensure that information and administrative requirements are limited to what is absolutely necessary and that they impose the least possible cost; the special circumstances of small businesses are addressed; and parties proposing equivalent means to conform to regulatory requirements are given positive consideration.
- International and intergovernmental agreements are respected, and full advantage is taken of opportunities for co-ordination with other governments and agencies.
- Systems are in place to manage regulatory resources effectively. In particular, regulatory authorities must ensure the following:
  - the regulatory process management standards are followed;
  - compliance and enforcement policies are articulated, as appropriate; and
  - resources have been approved and are adequate to discharge enforcement responsibilities effectively and to ensure compliance where the regulation binds the government.
- Other directives from Cabinet concerning policy and law making are followed such as the Cabinet Directive on Law-Making and the Cabinet Directive on the Environmental Assessment of Policy, Plan and Program Proposals and the Cost Recovery and Charging Policy.

Appendix B

Federal Regulatory Process Management Standards: Compliance Guide

1. Finding evidence of a problem

1.1 Policies, procedures and practices are in place to ensure detection of actual or potential problems.

1.2 All problems detected are properly defined and described.

1.3 Problems are analyzed to fully understand their nature and implications.

1.4 The absolute and relative health, safety and environmental risks associated with potential problems are assessed and compared, and risk management principles are used to set priorities for regulatory changes.

1.5 Interested parties are consulted on the nature of the problems and on potential solutions.

1.6 Consultation is proportional to the degree of risk and public acceptance associated with the regulatory actions proposed.

1.7 Documentation is concise and affected parties can understand it easily.

1.8 Government intervention is justified as a result of problem identification and definition, analysis and consultation.

2. Identifying and reviewing alternative solutions

2.1 The analyses of alternative solutions show that new regulatory requirements, be they new regulations or changes to existing ones, will help solve the problems.

2.2 Regulatory solutions based on performance requirements are considered as alternatives to prescriptive standards.

2.3 When possible, positive consideration is given to proposals for achieving regulatory objectives by equivalent means. When such proposals are not accepted, the reasons are fully documented and are explained to the proposer.

3. Analyzing benefits, costs and regulatory burden

3.1 Benefit-cost analyses are carried out on possible solutions to identified problems. The analytical effort is proportional to the related risks being addressed.

3.2a The benefit-cost analysis considers both direct and indirect benefits and costs, and considers impacts on the environment, government, business, workers, consumers and other sectors of society. The total gross costs of regulatory proposals are estimated.

3.2b The impacts of potential solutions on sustainable development are assessed and recommended solutions balance environmental, economic and societal goals.

3.3 Regulatory proposals are brought forward when benefits clearly outweigh costs. When this is not the case, a full explanation and justification is given for exceptions.

3.4 For regulations addressing health, social, economic or environmental risks, the relative net benefits of actions are considered. [Regulations] with the greatest net benefit are the regulatory proposals brought forward first. When this is not the case, a full explanation and justification is given for exceptions.

3.5 Analyses are undertaken on the burden [that] alternative regulatory proposals impose.

3.6 The specific effects of regulatory burden on small business are considered, and their particular circumstances and business practices are taken into account.

3.7 The [business impact test] or equivalent is used to analyze and compare the anticipated impacts of major, alternative regulatory solutions on business.

3.8 Recommended solutions minimize the regulatory burden and impose the least costly information and administrative burden on those regulated.

3.9 There is a verification system to ensure that all feasible alternatives to regulations are fully considered; that full consideration is given to equivalent means of achieving regulatory objectives and to performance-based options; and that the regulatory burden is kept to a minimum.

4. Identifying opportunities for intergovernmental co-ordination

4.1 Effective relationships are maintained with provincial and foreign regulators and procedures are in place to obtain information from them, as necessary.

4.2a The regulatory environment of the problem area is understood; particularly, [it is known] what regulations exist, which levels of government are involved and who the responsible regulatory authorities are.

4.2b Regulatory solutions are developed with the existing regulatory environment in mind and are co-ordinated with existing regulatory requirements to maximize efficiencies and to avoid overlap and duplication.

4.3 Recognized Canadian and international standards are referenced in regulations when appropriate, rather than [supplemented with] a new, duplicate set of standards.

4.4 Interdepartmental and intergovernmental agreements clearly define the roles and responsibilities of each party, the objectives of the regulatory program, enforcement policies, and mechanisms to promote inter agency co-ordination.

4.5 Regulatory personnel is familiar and up-to-date with international and federal-provincial trade agreements and respects their obligations. [It] understands and respects other pertinent agreements.

5. Implementing the best alternative

5.1 Regulatory programs have specific and clearly documented objectives and goals.

5.2 Compliance policies support the implementation of the regulatory objectives and goals.

5.3 The compliance aspects of major regulatory proposals are designed to minimize the liability of the government.

5.4 Those whose actions are subject to regulations are identified and informed of their responsibilities.

5.5 Compliance objectives are clearly defined and appropriately reflected in operational plans and budgets. Plans and performance expectations are communicated to all enforcement personnel. Fair redress mechanisms exist. Regulatees and products from different jurisdictions are treated equally.

5.6 Regulatory programs have procedures for controlling program delivery.

5.7 Complaint management systems with fair redress mechanisms are in place as appropriate.

6. Communicating effectively

6.1 Consultation documents and information about the regulatory proposals are clear and all those who may be affected can understand them easily.

6.2a All those potentially affected by a regulatory proposal are given adequate notice of it.

6.2b Regulated parties and others affected by regulations are given adequate information so that they can fully understand the regulations, the regulatory programs and any associated material of direct relevance.

6.3a Information about regulations and proposed changes to regulations appears in the types of media that groups affected by the regulation most often use.

6.3b The regulatory authority is proactive in reaching its clients and explores new and emerging ways of communicating.

6.4 Managers verify that regulatory information is clear and accessible to interested parties.

7. [Preparing a] regulatory impact analysis statement (RIAS)

7.1a RIASs are prepared when regulations are to be written or amended as part of the recommended solution to a problem [or as the whole solution].

7.1b RIASs are concise, clear and complete. They include information on the problem, the rationale for a regulatory solution, the recommended solution, alternatives that have been considered, the consultation process, and the compliance and enforcement mechanisms to be used.

8. Consulting stakeholders

8.1a There are procedures in place for developing and maintaining appropriate relationships with target populations, professional bodies and industry associations to ensure effective and efficient discussion and resolution of issues.

8.1b There are documented procedures for carrying out consultations, including how consultees are to be identified, contacted and encouraged to participate.

8.2 Interested parties are given clear notification of consultation activities in sufficient time for them to prepare and deliver their input. For complex regulations, consultations start as soon as a potential problem is identified.

8.3 Defining the exact nature of the problem is part of the consultation agenda. Consultations cover alternative regulatory and non-regulatory solutions and the final solution.

8.4 Consultation effort is in proportion to the importance and impact of proposed regulatory changes.

8.5 Consultations clearly identify who should be consulted and what methods should be used to consult with different interest groups. All major interested parties are invited to participate in consultations.

8.6 Alternative consultation methods are used when appropriate, especially if proposed by the people [being] consulted.

8.7 [A business] impact test or equivalent is used [for consultations] on major regulations.

8.8 [Consulted parties] are approached more than once, as necessary, when situations change, when new issues arise or when consultations are out of date.

8.9 All input to consultations is considered and the reasons for not incorporating major suggestions are documented. Feedback is provided to those who contribute to the consultation process on how their ideas are used.

8.10 There is an awareness of the consultation efforts of all levels of government in the areas that are addressed by the regulatory authority, and consultations are co-ordinated when appropriate.

9. Documenting the process

9.1 The departmental regulatory process is documented and includes objectives, responsibilities, authorities and review requirements.

9.2a There are procedure manuals for the regulatory process management system.

9.2b There are procedure manuals for all but the most insignificant regulatory programs.

9.2c Procedures are kept up-to-date.

9.3 Decisions are clearly documented throughout the process, and an appropriate level of management approves and verifies documents.

9.4 The process for each regulatory initiative is adequately documented. Reasons for not following the [federal] regulatory policy are documented whenever that occurs.

10. Continuous improvement

10.1 Internal management reviews of the regulatory process are conducted on a regular basis.

10.2 Regulatory program designs are periodically reviewed, and improvements are made as a result.

10.3 There is a system for verifying that managers address problems identified in reviews or by clients.

10.4 There is a system for verifying that staff is suitably trained in regulatory development skills and [that] training is provided when appropriate.

10.5 There are procedures for training staff to ensure that sufficient and properly qualified personnel is available.

Chapter 25

Canadian Food Inspection Agency

Food Inspection Programs

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 25-5

Introduction 25-7

History of the Canadian Food Inspection Agency 25-7
Shared responsibility for food safety 25-7
Food inspection programs 25-9
The external environment 25-9
The internal environment 25-10
Focus of the audit 25-10

Observations and Recommendations 25-11

The Agency's Initiatives to Achieve Its Mandate 25-11

Integrated Inspection System 25-13
The system has encountered setbacks 25-13

Risk-Based Resourcing 25-14
Attempts at risk-based resourcing across programs have been unsuccessful 25-15
Programs may not be appropriately resourced based on risks 25-16
The Agency took action to manage resource variances 25-16
Guidance is needed to assist operational decisions 25-17

Management of Imported Commodities 25-18
The Agency needs a strategic approach to manage imported commodities 25-18
Current legislation is limiting 25-18

Non-Federally Registered Sector 25-19
The Agency has recognized a need to change the focus in managing the sector 25-20
Assessment of overall risks is needed 25-21
The focus has changed without broad consultation on inspection options 25-21

Approach Based on Hazard Analysis and Critical Control Points 25-23
The Agency has developed and implemented HACCP-based programs for most industries 25-24
A formal strategy is needed for the implementation of the HACCP-based approach 25-27
A further redesigned program for beef and pork could take many years 25-28
There is no pathogen-reduction effort for the Canadian market 25-29

Management of Compliance Activities 25-30
Problems exist in compliance activities 25-31
More attention to managing compliance activities is needed 25-32

Management of Human Resources 25-33
The Agency has made progress in human resource management 25-33
The Agency needs to better understand future human resource requirements 25-33

Key Information for Making Management Decisions and Measuring Success 25-34
The Agency has many types of information 25-35
Better information could be used in many ways 25-35
The Agency must work with its partners 25-36

Page

Communication With Stakeholders 25-36
The Agency's corporate business plan and annual report fall short of expectations 25-37
The Agency has undertaken a number of initiatives to improve communication 25-38
The approach to communication with stakeholders needs to be improved 25-39

Corporate Capacity 25-40
The Agency's corporate capacity continues to develop 25-40

Conclusion 25-40

About the Audit 25-42

Exhibits

25.1 Food Commodities and Their Applicable Federal Legislation for Food Safety 25-8
25.2 Contributing to a National Food Inspection System 25-9
25.3 Development of the Canada Food Safety and Inspection Act 25-11
25.4 Improvement of the Agency's Enforcement Actions 25-12
25.5 The Agency's Consolidation of Its Laboratories 25-12
25.6 Bacon-Wrapped Scallops — Integrating Programs Across Commodities 25-13
25.7 Agency-Wide Risk-Based Resourcing Project 25-15
25.8 Federal Registration Is Not Influenced by Risk to Food Safety 25-20
25.9 Approach Based on the Principles of Hazard Analysis and Critical Control Points (HACCP) 25-25
25.10 Re-engineering the Quality Management Program 25-27
25.11 Number of Establishments With Recognized HACCP Plans Under the FSEP, as of July 2000 25-28
25.12 Compliance and Enforcement Options, Depending on the Legislation 25-31
25.13 Examples of Persistent Problems Noted by Agency Inspectors 25-32
25.14 Collecting and Analyzing Information on Food-Borne Illness: The U.S. Experience 25-35
25.15 Extent of Stakeholder Consultation in the Agency's Key Management Decisions 25-38

Canadian Food Inspection Agency

Food Inspection Programs

Main Points

25.1 The Agency's food inspection programs are reviewed and generally well regarded by most foreign countries that import our products. This feedback provides a degree of assurance that the Agency's food inspection programs are contributing to the safety of the Canadian food supply.

25.2 Since its creation in April 1997, the Agency has undertaken a number of initiatives to improve the efficiency and effectiveness of federal food inspection — a major reason for its creation. These initiatives include the development of an Integrated Inspection System (IIS) to promote greater consistency between inspection programs; and the introduction of an approach based on the principles of hazard analysis and critical control points (HACCP). The HACCP-based approach is a tool to improve the safety of food through the assessment of hazards and the establishment of control systems that focus on prevention, rather than mainly the reliance on end-product testing.

25.3 While progress has been varied and in a few cases faltered, the Agency has made progress in many of the initiatives. We noted that the Agency has had difficulty in establishing a process to support risk-based resourcing. As a result, the Agency cannot demonstrate that it has appropriately resourced its food inspection programs based on risk. Such a process is needed particularly in the imported food sector, which is worth $15 billion and is growing, and the non-federally registered sector, which represents almost one-half of the food-processing industry. We also noted in the non-federally registered sector that the Agency has changed its inspection approach without adequately assessing overall risks and the options available for managing the sector. Also of concern is the lack of a formal strategy for the implementation of the HACCP-based approach and the setbacks encountered in the IIS.

25.4 We identified problems with the Agency's compliance activities. We examined 21 inspection files from establishments that had issued food recalls or had been prosecuted in the last two years. In 1999-2000, the Agency participated in 243 recalls and had 59 successful prosecutions. We found that in 16 cases, the same or similar problem persisted for many months and in some cases, years. The compliance actions taken were not sufficient to achieve the Agency's goal of timely correction of the compliance problem either because of the limitations in the legislation or a failure by the inspector to take more serious compliance action.

25.5 Measuring the success of initiatives and more broadly the performance of the Agency in achieving its goals is also a concern. We noted that the Agency had not set expectations or measured performance to determine if its initiatives and activities have contributed to a more efficient and effective food inspection system. Our annual assessment of the performance information in the Agency's annual report has consistently noted that readers are not provided with the information necessary to understand the extent to which the Agency is achieving its objectives.

Background and other observations

25.6 The Canadian Food Inspection Agency is the result of the amalgamation of food safety and inspection programs from three federal departments : Agriculture and Agri-Food Canada, Health Canada, and Fisheries and Oceans. It now has some 4,400 employees across the country and manages expenditures of $416 million. The Agency's main activities focus on inspecting the food supply, but it also conducts activities related to animal health and plant protection.

25.7 The Agency is not solely responsible for food safety. It shares this responsibility with other federal departments and provincial, territorial and municipal authorities. Industry and consumers also play an important role. Health Canada is responsible for establishing policies and standards relating to the safety and nutritional quality of food. The Agency is responsible for delivering federal inspection programs that enforce these policies and standards.

25.8 The Agency operates in a complex environment created by a number of factors, including changes in food risks, technology, inspection methodology, international requirements, consumer trends and consumer perception.

25.9 Our audit focussed on assessing how the Agency manages food inspection to reduce risks to food safety.

25.10 We found that a formal strategy for the implementation of the HACCP-based approach is needed. A plan for the transition period, including considering how to manage resources during the transition period needs to be developed. Further, insufficient information has been collected to allow the Agency to measure the success of implementing the HACCP-based approach in improving food safety. It could take many years to develop and implement the further redesign of the HACCP-based approach in the meat industry. This redesign would require industry to perform ante- and post-mortem detection with continuous government monitoring and oversight in the beef and pork industries. It could also take a long time to introduce a pathogen-reduction effort in these industries. This situation is in contrast with the important progress made in the poultry industry.

25.11 The Agency is lacking important information on the incidence of food-borne illness in humans and the prevalence of pathogens in the food supply. This is complicated by the fact that the Agency is not responsible for gathering some of the information. However, without this information, it is more difficult to manage risks to food safety and measure the success of Agency initiatives and its contribution to the safety of the food supply.

25.12 The Agency has consulted the provinces, industry and the public on some, but not all, significant initiatives and issues. As a result, the Agency has missed opportunities for broad public debate on important questions, including the following: How much inspection attention should be paid to the non-federally registered sector given its mandate? Should the Agency continue to provide industry with considerable flexibility in implementing the HACCP-based approach? Should it be leading internationally in implementing the further redesign of the HACCP-based approach in the meat industry? It is important that the Agency engage stakeholders, including Parliamentarians and the public, in a debate on these questions.

The Canadian Food Inspection Agency's responses to our recommendations are included in the chapter. The Agency accepts all but one of our recommendations and has indicated a number of actions it is taking or intends to take to address them. The Agency disagrees with our recommendation relating to the non-federally registered sector. Its position is reflected in its response following paragraph 25.82.

Introduction

25.13 Responsibility for safe food lies with all those involved in food, from production through to consumption:

- farmers must produce safe food, and fishers must catch and handle fish safely;
- food processors, wholesalers and distributors must comply with established standards;
- all levels of government must verify compliance with these standards; and
- consumers must handle food properly.

History of the Canadian Food Inspection Agency

25.14 The Canadian Food Inspection Agency (CFIA) was created in 1997 by combining the food safety and inspection programs of three federal departments: Agriculture and Agri-Food Canada, Health Canada, and Fisheries and Oceans. This move was an attempt to facilitate a more uniform and consistent approach to safety and quality standards and risk-based inspection.

25.15 The Agency's creation resulted from a long history of identifying reasons to reform the food inspection system. Between 1970 and 1985 four key reports mentioned the need for a single agency to provide better co-ordinated food inspection. In 1986 the Interdepartmental Committee on Food Regulation (ICFR) was established in response to the 1985 report of the Task Force on Program Review (Nielson Report). In our 1994 Report, Chapter 13, Federal Management of the Food Safety System, we concluded that long-standing problems with the food inspection system still existed and that the mandate of the ICFR remained unfulfilled. The 1995 federal Budget highlighted the need to improve the effectiveness and efficiency of the federal component of the Canadian food inspection system, including possible changes to the organizational structure. The Office of Food Inspection Systems (OFIS) was established in May 1995 to review organizational options and consult stakeholders. The Canadian Food Inspection Agency began operation on 1 April 1997.

Shared responsibility for food safety

25.16 At the federal level, responsibility for food safety is shared between the Minister of Agriculture and Agri-Food, through the Agency, and the Minister of Health, through Health Canada. The Agency's primary role in food safety is to conduct all federal food inspection activities. It also has other responsibilities for animal health and plant protection.

25.17 The Minister of Health establishes policies and standards for the safety and nutritional quality of food sold in Canada. These policies and standards are based in part on the risk assessments, food safety research and disease surveillance by Health Canada. The Department also assesses the effectiveness of the Agency's food inspection activities.

25.18 The Agency regulates the food industry through two types of food safety legislation. All food produced in Canada or imported is covered by the *Food and Drugs Act*, which derives its authority from powers of federal criminal law. This Act prohibits the manufacture or sale of all dangerous and adulterated food products anywhere in Canada. There are a number of commodities (dairy, shell and processed egg, fresh and processed fruits and vegetables, honey, maple syrup, beef, pork, poultry and fish) that are also covered by other Acts. These Acts derive their authority from powers of federal trade and commerce. Canadian establishments that process and distribute these commodities inter-provincially/territorially or internationally must register with the Agency in order to operate. As such, the establishments that trade in these commodities are referred to as "federally registered establishments." In addition to product inspection, importers or foreign processing establishments of these commodities may be subject to enhanced import controls, such as foreign country assessment, inspection of foreign establishments, audit of importer quality systems and importer licensing. All other food establishments are referred to as "non-federally registered establishments." Exhibit 25.1 presents the relationship between the two groups of food commodities and the two types of federal food safety legislation. The Agency is also responsible for the administration and enforcement of the *Consumer Packaging and Labelling Act*, which applies to selected food products that are sold or advertised for sale in Canada or imported into the country.

> The Canadian Food Inspection Agency's mandate is "to enhance the effectiveness and efficiency of federal inspection and related services for food and animal and plant health."

25.19 The Agency's mandate is "to enhance the effectiveness and efficiency of federal inspection and related services for food and animal and plant health." Its mission is "safe food, market access and consumer protection." The objectives stated in the corporate business plan are to contribute to a safe food supply and accurate product information; to contribute to the continuing health of animals and plants for protection of the resource base; and to facilitate trade in food, animals, plants and their products.

25.20 Food safety also involves provincial, territorial and municipal authorities. Under their public health and trade mandates, the provinces' and territories' jurisdiction extends to all food manufactured, traded and sold within their borders. The provincial governments not only regulate retail and food services, such as restaurants, but may also regulate requirements for all food premises, including federally registered establishments. For example, most

Exhibit 25.1

Food Commodities and Their Applicable Federal Legislation for Food Safety

	Dairy, shell and processed egg, fresh and processed fruits and vegetables, honey, maple syrup, beef, pork, poultry, fish			**All other foods**	
Percentage of grocery dollars spent by consumers on these commodities	56%			44%	
	Domestically produced: traded inter-provincially territorially or internationally	Imported	Domestically produced: sold within a province or territory	Domestically produced: traded inter-provincially/territorially, internationally or sold within a province or territory	Imported
	Federal registration required or enhanced import controls		**Federal registration NOT required**		
Applicable criminal legislation: i.e., *Food and Drugs Act*	✓	✓	✓	✓	✓
Applicable trade and commerce legislation: i.e., *Canada Agricultural Products Act, Meat Inspection Act, Fish Inspection Act*	✓	✓	N/A	N/A	N/A

Source: CFIA's documents and other sources

provinces regulate the construction and basic sanitary requirements of certain establishments within their borders. In some provinces, municipal governments also enforce regulations.

25.21 Because of this shared responsibility, mechanisms are needed to ensure effective and well-coordinated partnerships with a clear understanding of responsibilities and activities. To do so, the Agency and its partners participate in a number of co-operative committees. For example, the Agency is a member of the Canadian Food Inspection System Implementation Group. The Group is an interdepartmental/intergovernmental committee established to advance a fully integrated inspection system. The Agency is also involved in the work of the Federal/Provincial/Territorial Agri-Food Inspection Committee, which discusses science issues, concerns about technical trade barriers, and agri-food inspection policies and programs. Exhibit 25.2 summarizes other valuable work by the Agency to help improve the co-ordination of food inspection activities across Canada.

Food inspection programs

25.22 Food inspection programs verify, through inspection or audit, that food products for domestic and foreign consumption meet Canadian or foreign standards for safety, quality, handling, identity, processing and labelling. This function is primarily carried out in two ways: through the registration and inspection of establishments for inter-provincial and international trade; and through the inspection and grade monitoring of products in registered and non-registered processing establishments, at importers' premises and in retail establishments. The inspection of quantity, quality and labelling protects consumers from economic fraud. Industry compliance inspection involves a visit to an establishment and, following detailed inspection policies and procedures, verification that an establishment is operating in accordance with government regulations. The evolution of new inspection methodologies is changing the approach to inspection. There is an increased focus on government audit of industry activities with the support of compliance and enforcement tools. The Agency also participates in emergency food recalls and investigates food-borne illnesses. These activities help to ensure that Canadian food exports can access international markets.

25.23 For 1999-2000, the Agency reported that its total annual costs were $416 million, $54 million of which was recovered through user fees. Of this total amount, $279 million were for food safety and $137 million were for animal health and plant protection. It now has some 4,400 employees across Canada.

The external environment

25.24 Many factors affect the safety of the food we eat. These factors influence the means that the Agency and industry use to help ensure the wholesomeness and safety of food. They also create challenges for the Agency in carrying out its mandate.

25.25 One factor over the last many years has been the changing hazards in our food. When the *Meat Inspection Act* was passed in 1907, diseases that could be transmitted from animals to humans were of primary concern. In the 1980s chemical

Exhibit 25.2

Contributing to a National Food Inspection System

The Agency, as part of the Canadian Food Inspection System Implementation Group, is participating in the development of harmonized model regulations and codes for a number of industries. These regulations and codes provide a set of standards that serve as guides for each jurisdiction, federal, provincial and territorial, in developing their own laws and codes of practice. Codes and regulations for the dairy industry and retail and food service industry have been approved and regulations and codes for the meat and poultry, horticulture and bottled water industries are being developed.

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Applicable criminal legislation: i.e., *Food and Drugs Act*	✓	✓	✓	✓	✓
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contamination was the main concern. Measures were taken to control it, and residue testing became a routine part of food inspection. The significant hazard that emerged in the 1990s was microbial contamination, which can cause immediate and acute illness. Controlling such contamination can be done with such means as clean water, public sanitation, disease surveillance and food control. Other new hazards which have raised concern in recent years include antibiotic-resistant bacteria, food allergens and diseases such as bovine spongiform encephalopathy (BSE or "mad cow disease").

25.26 To deal with new hazards, new technology and control measures must be developed. At the same time, new inspection methods must be developed. The adoption of food-processing systems based on the principles of hazard analysis and critical control points (HACCP) has resulted in changes to the inspection methodology of food processors that have implemented this system.

25.27 Another factor that has affected food safety over the years has been the change in international trade requirements, which influence the activities of industry and the Agency. As a member of the World Trade Organization, Canada has an obligation to harmonize its food safety measures with international standards, guidelines and recommendations adopted by the Codex Alimentarius Commission, a joint commission of the United Nation's Food and Agriculture Organization and World Health Organization. The Commission is generally recognized as the authority on international food safety standards. Additional international obligations exist under the Agreement on the Application of Sanitary and Phytosanitary Measures and Technical Barriers to Trade. As well, Canada has entered into a number of equivalency agreements with other countries. These agreements recognize that Canada's food inspection system meets the required level of protection of our trading partners and that their system meets Canada's level.

25.28 Finally, changes in consumer trends and consumer perception have influenced the Agency's activities. Today Canadians are consuming a greater variety of foods. There has been substantial growth in domestic food processing, food exports, and food imports. Eating patterns are changing, with more food dollars being spent on foods prepared outside the home, either in restaurants or processing facilities. Consumers are more aware of the hazards that exist in food and have certain expectations of government and industry to protect them from these hazards.

The internal environment

25.29 When it was created, the Agency inherited 12 pieces of legislation, 46 sets of regulations, some 4,500 full-time equivalents and 27 bargaining units as well as different methodologies, styles and corporate cultures.

25.30 Creating the Agency was seen as a means to give it greater autonomy in providing more responsive and more cost-effective services. The government expected that the Agency would reduce, avoid and recover costs. It cut the Agency's budget by $33 million over the first three years, which has had an impact on the way the Agency has carried out its inspection activities.

Focus of the audit

25.31 We undertook this audit to do the following:

- to assess whether the inspection regimes have been satisfactorily designed, structured, organized and implemented to achieve their safety and other objectives;
- to identify factors and constraints that affect the development or implementation of the inspection regimes; and

- to determine whether the Agency is proceeding adequately with initiatives to improve its management of risks to food safety relative to its mandate for food inspection.

25.32 To assess how the Agency manages risk, we examined a number of its strategic initiatives to manage risks. We focussed on the initiatives that we felt were the most significant:

- the Integrated Inspection System
- risk-based resourcing
- imported commodities
- non-federally registered establishments
- the implementation of the HACCP-based approach
- compliance and enforcement activities
- human resource management.

In addition, we also assessed the following factors, which can influence the success of these initiatives:

- information for management decisions and performance measurement
- risk communication framework
- corporate capacity.

25.33 Further information on our audit scope, criteria and approach can be found at the end of the chapter in the section **About the Audit**.

Observations and Recommendations

The Agency's Initiatives to Achieve Its Mandate

25.34 After the creation of the Agency in 1997, the Minister of Agriculture and Agri-Food presented to Parliament the Agency's first corporate business plan for 1997-2000. The plan identified a number of strategic initiatives that the Agency intended to undertake to achieve its mandate of enhancing the effectiveness and efficiency of federal inspection and related services for food. The Agency has carried out other initiatives, not mentioned in its business plan, to achieve its mandate. In doing so, the Agency has created expectations for improvements.

The Agency's corporate business plan identified a number of strategic initiatives that the Agency intended to undertake to achieve its mandate.

25.35 It was intended that the Agency would evolve in three phases. The first phase would involve the amalgamation of the food safety and inspection programs of Agriculture and Agri-Food Canada, Health Canada, and Fisheries and Oceans. This phase is complete. The second phase would see the modernization of food safety legislation. The Agency drafted the *Canada Food Safety and Inspection Act* to do so (see Exhibit 25.3), and work is ongoing to revise the proposed Act. The third phase would involve program and regulatory redesign. The Agency has significantly redesigned some programs, but further redesign remains outstanding because it depends on a change in legislation.

25.36 The Agency has made good progress in some areas. For example, it has done the following:

- achieved its targets for resource savings;
- progressed on the federal/provincial negotiations under the Canadian Food

Exhibit 25.3

Development of the Canada Food Safety and Inspection Act

The Agency and Health Canada established the Task Force on Legislation. The task force reviewed the Agency's legislation and developed a strategy and action plan for modernizing and consolidating the legislation. The result of extensive consultation and this review was the first reading in the House of Commons of Bill C-80, the *Canada Food Safety and Inspection Act*. The Bill proposed an Act designed to establish a more consistent approach to licensing, import controls, offences, enforcement powers and penalties. At the time of our audit, work was ongoing to revise the first reading of the Bill.

Source: CFIA's Performance Report, for the period ending 31 March 1999

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Source: CFIA's Performance Report, for the period ending 31 March 1999

Inspection System Implementation Group (see Exhibit 25.2):

- drafted federal legislation in the form of the *Canada Food Safety and Inspection Act* (see Exhibit 25.3);
- created the Office of Food Safety Recall to address some of the problems that the Agency had experienced when participating in food recalls;
- improved its procedures on enforcement action, that is, in situations when legal action is taken (Exhibit 25.4);
- consolidated its laboratory services (see Exhibit 25.5); and
- continued to deliver food inspection programs that are well regarded by foreign countries and to manage some 1,500 international agreements and protocols dealing with market access and export certification arrangements.

Exhibit 25.4

Improvement of the Agency's Enforcement Actions

We found that the Agency has taken important steps to improve the quality and consistency of its enforcement (i.e., legal) actions. The Agency is providing enforcement training to all inspection staff. The training includes guidance on factors to consider when recommending prosecution, involving local enforcement and investigation services, and using a standardized inspection form that captures all the required information when prosecution is likely. While the Agency still depends on inspectors and supervisors to recommend prosecution, recent training programs appear to be well designed to help ensure consistency in their decisions.

Source: CFIA's documents and other sources

Exhibit 25.5

The Agency's Consolidation of Its Laboratories

In 1999-2000 the Agency consolidated all 22 of its laboratories into a single reporting structure. The laboratories are grouped into four areas (Atlantic, Quebec, Ontario and West), with each area reporting to a senior area laboratory network director.

One of the Agency's goals is to have its laboratories accredited to international standards. All of the laboratories have either achieved accreditation by the Standards Council of Canada to ISO/IEC Guide 25 (General Requirements for the Competence of Calibration and Testing Laboratories), submitted an application for accreditation, or are preparing to do so.

Source: CFIA's Annual Report, 1999-2000

25.37 Here is a brief introduction of these initiatives, which we discuss in detail later in the chapter:

- **Integrated Inspection System (IIS).** The Agency's business plan and the Canadian Food Inspection System Implementation Group identified the IIS as key to bringing consistency to the many different approaches to food inspection that existed before the creation of the Agency. This initiative affects all food inspection programs.
- **Risk-based resourcing.** Identifying and assessing risks to food safety and economic risks and allocating resources based on the relative risks have been goals of the Agency and its predecessors for many years. This initiative would allow the Agency to demonstrate that it has appropriately resourced its food inspection programs based on the relative risks. This initiative affects all food inspection programs.
- **Imported commodities.** The value of food imports has increased over 60 percent between 1992 and 1998. This growing sector requires a different management approach than the sector that produces food domestically. Developing a consistent approach would help to ensure that the management of imported commodities is appropriate based on risks.
- **Food inspection programs for establishments in the non-federally registered sector.** The sector represents almost half of the food-processing industry in Canada. These establishments are generally subject to a much less rigorous federal inspection regime than food processors in the federally registered sector. Assessing the overall risks to food safety in the non-federally registered sector is important for determining the appropriate level of effort based on risks.
- **Implementation of the HACCP-based approach in the**

federally registered sector. This initiative has significantly changed the processing and inspection methodology. Many of Canada's trading partners are also implementing this approach. HACCP-based systems are generally accepted worldwide as a means to improve the safety of food. HACCP-based inspection programs are expected to allow for better allocation of inspection resources to those areas that present the greatest risk.

- **Improvement of compliance and enforcement actions.** The Agency uses these actions to secure correction of non-compliance problems identified at establishments during inspection. This initiative affects all food inspection programs and helps to ensure appropriate and consistent action.

- **Human resource management.** The Agency has freedoms in managing its human resources, which are not usually available to departments. An understanding of what the Agency needs in a future work force could help it in preparing to deliver its mandate into the future.

25.38 We have identified three factors that we believe influence the success of these initiatives:

- **Information** is important to making management decisions and measuring performance. It can assist in understanding risks, designing food inspection programs to manage these risks and measuring the success of these programs.

- **A risk communication framework** helps an organization to operate transparently and responsibly, which is key to engaging stakeholders in important management decisions. Communication with stakeholders through the corporate business plan, the annual report and consultation provides a means for considering stakeholder concerns and expectations in management decisions.

- **Corporate capacity** is important to the orderly operation of an organization. While corporate capacity is always evolving, there are basic elements that must be in place to assist in orderly operation.

25.39 We expected that the Agency would proceed adequately on implementing these important strategic initiatives and would identify how they have contributed to the effective and efficient delivery of food inspection activities. We found that progress on implementation has been varied.

Integrated Inspection System

The system has encountered setbacks

25.40 The Agency made a commitment to an Integrated Inspection System to improve the efficiency and effectiveness of food inspection activities by integrating them into two dimensions. First, it would integrate inspection activities across all food inspection programs to have a more uniform approach, that is, to treat similar risks to food safety in a similar manner regardless of which food inspection program they relate to (see Exhibit 25.6). Second, it would develop an integrated

Exhibit 25.6

Bacon-Wrapped Scallops — Integrating Programs Across Commodities

The case of the fish processor that wanted to produce bacon-wrapped scallops highlights the problem of having food regulations with different standards for different commodities. In this case, requirements for meat are different and generally more stringent than for fish:

- **non-impervious walls are required in a meat-processing establishment, but are not required under fish-processing regulations;**
- **painted plywood is not allowed under the meat-processing regulations, but it is acceptable under fish-processing regulations;**
- **bacon must be processed in a refrigerated environment that is not higher than 10°C, a requirement that does not exist under fish-processing regulations.**

IIS principles incorporating uniformity of both inspection and safety standards across commodities will provide solutions for similar cases.

Source: Internal memorandum of the CFIA

Inspection System Implementation Group (see Exhibit 25.2);

- drafted federal legislation in the form of the *Canada Food Safety and Inspection Act* (see Exhibit 25.3);
- created the Office of Food Safety Recall to address some of the problems that the Agency had experienced when participating in food recalls;
- improved its procedures on enforcement action, that is, in situations when legal action is taken (Exhibit 25.4);
- consolidated its laboratory services (see Exhibit 25.5); and
- continued to deliver food inspection programs that are well regarded by foreign countries and to manage some 1,500 international agreements and protocols dealing with market access and export certification arrangements.

25.37 Here is a brief introduction of these initiatives, which we discuss in detail later in the chapter:

- **Integrated Inspection System (IIS).** The Agency's business plan and the Canadian Food Inspection System Implementation Group identified the IIS as key to bringing consistency to the many different approaches to food inspection that existed before the creation of the Agency. This initiative affects all food inspection programs.
- **Risk-based resourcing.** Identifying and assessing risks to food safety and economic risks and allocating resources based on the relative risks have been goals of the Agency and its predecessors for many years. This initiative would allow the Agency to demonstrate that it has appropriately resourced its food inspection programs based on the relative risks. This initiative affects all food inspection programs.
- **Imported commodities.** The value of food imports has increased over 60 percent between 1992 and 1998. This growing sector requires a different management approach than the sector that produces food domestically. Developing a consistent approach would help to ensure that the management of imported commodities is appropriate based on risks.
- **Food inspection programs for establishments in the non-federally registered sector.** The sector represents almost half of the food-processing industry in Canada. These establishments are generally subject to a much less rigorous federal inspection regime than food processors in the federally registered sector. Assessing the overall risks to food safety in the non-federally registered sector is important for determining the appropriate level of effort based on risks.
- **Implementation of the HACCP-based approach in the**

Exhibit 25.4

Improvement of the Agency's Enforcement Actions

We found that the Agency has taken important steps to improve the quality and consistency of its enforcement (i.e., legal) actions. The Agency is providing enforcement training to all inspection staff. The training includes guidance on factors to consider when recommending prosecution, involving local enforcement and investigation services, and using a standardized inspection form that captures all the required information when prosecution is likely. While the Agency still depends on inspectors and supervisors to recommend prosecution, recent training programs appear to be well designed to help ensure consistency in their decisions.

Source: CFIA's documents and other sources

Exhibit 25.5

The Agency's Consolidation of Its Laboratories

In 1999-2000 the Agency consolidated all 22 of its laboratories into a single reporting structure. The laboratories are grouped into four areas (Atlantic, Quebec, Ontario and West), with each area reporting to a senior area laboratory network director.

One of the Agency's goals is to have its laboratories accredited to international standards. All of the laboratories have either achieved accreditation by the Standards Council of Canada to ISO/IEC Guide 25 (General Requirements for the Competence of Calibration and Testing Laboratories), submitted an application for accreditation, or are preparing to do so.

Source: CFIA's Annual Report, 1999-2000

federally registered sector. This initiative has significantly changed the processing and inspection methodology. Many of Canada's trading partners are also implementing this approach. HACCP-based systems are generally accepted worldwide as a means to improve the safety of food. HACCP-based inspection programs are expected to allow for better allocation of inspection resources to those areas that present the greatest risk.

- **Improvement of compliance and enforcement actions.** The Agency uses these actions to secure correction of non-compliance problems identified at establishments during inspection. This initiative affects all food inspection programs and helps to ensure appropriate and consistent action.

- **Human resource management.** The Agency has freedoms in managing its human resources, which are not usually available to departments. An understanding of what the Agency needs in a future work force could help it in preparing to deliver its mandate into the future.

25.38 We have identified three factors that we believe influence the success of these initiatives:

- **Information** is important to making management decisions and measuring performance. It can assist in understanding risks, designing food inspection programs to manage these risks and measuring the success of these programs.

- **A risk communication framework** helps an organization to operate transparently and responsibly, which is key to engaging stakeholders in important management decisions. Communication with stakeholders through the corporate business plan, the annual report and consultation provides a means for considering stakeholder concerns and expectations in management decisions.

- **Corporate capacity** is important to the orderly operation of an organization. While corporate capacity is always evolving, there are basic elements that must be in place to assist in orderly operation.

25.39 We expected that the Agency would proceed adequately on implementing these important strategic initiatives and would identify how they have contributed to the effective and efficient delivery of food inspection activities. We found that progress on implementation has been varied.

Integrated Inspection System

The system has encountered setbacks

25.40 The Agency made a commitment to an Integrated Inspection System to improve the efficiency and effectiveness of food inspection activities by integrating them into two dimensions. First, it would integrate inspection activities across all food inspection programs to have a more uniform approach, that is, to treat similar risks to food safety in a similar manner regardless of which food inspection program they relate to (see Exhibit 25.6). Second, it would develop an integrated

Exhibit 25.6

Bacon-Wrapped Scallops — Integrating Programs Across Commodities

The case of the fish processor that wanted to produce bacon-wrapped scallops highlights the problem of having food regulations with different standards for different commodities. In this case, requirements for meat are different and generally more stringent than for fish:

- **non-impervious walls are required in a meat-processing establishment, but are not required under fish-processing regulations;**
- **painted plywood is not allowed under the meat-processing regulations, but it is acceptable under fish-processing regulations;**
- **bacon must be processed in a refrigerated environment that is not higher than 10°C, a requirement that does not exist under fish-processing regulations.**

IIS principles incorporating uniformity of both inspection and safety standards across commodities will provide solutions for similar cases.

Source: Internal memorandum of the CFIA

"production to consumption" approach to food safety with producers, processors, provinces and consumers. This project has received support from industry, which generally considers the IIS as a positive initiative.

25.41 We expected that the Agency would proceed with the implementation of the IIS. We found that it has experienced some difficulty in advancing this initiative, although the Agency has recently taken action to make progress.

We found that the Agency has experienced some difficulty in advancing the initiative of the Integrated Inspection System.

25.42 In the first phase of the project, completed in the fall of 1998, the Agency established a model and reference standard for an IIS and produced a report that benchmarked existing Agency food inspection programs. In the second phase, it needed to further develop the IIS model by conducting pilot projects and consulting its staff, industry and the provinces. In the two years since the completion of the first phase, the project has encountered a number of setbacks, including changes in staff and problems communicating IIS-related concepts internally. As a result of these and other problems, the Agency has reconsidered the scope and direction of the project. We understand that the Agency will now focus on some smaller scale projects, such as integrating its various import programs and supporting the Canadian Food Safety Adaptation Program to develop strategies and systems that manage food safety from production to consumption.

25.43 The Agency's business plan identifies the IIS as a key initiative. In fact, the Canadian Food Inspection System Implementation Group recommended it in its Report to Ministers. As such, it is important that the Agency continue to focus on its goals of greater integration.

25.44 The Canadian Food Inspection Agency should revitalize and complete the development of the Integrated Inspection System.

***Agency's response:** The CFIA agrees with this recommendation and has taken action to further enhance the efficiency and effectiveness of its food inspection system within legislative boundaries.*

The initiative has refocussed on integration of inspection approaches in the area of import control systems and consistency of audit and verification protocols related to science-based inspection procedures.

Risk-Based Resourcing

25.45 The Agency considers risks to food safety to be a critical element in risk management decisions. Risk to food safety is determined by the probability that a hazard to food safety will have an adverse effect and by the magnitude of that effect. Hazards to food safety include microbial pathogens (like salmonella), chemical residues (such as pesticides) or foreign materials (like glass). But there are other risks that influence risk management decisions at the Agency. For instance, economic risk comes from a number of sources including international requirements, which if not met, could mean the loss of a market. For example, in various programs, the Agency must provide inspection activities for trade in addition to inspection activities for food safety, in order to meet the import trade requirements of other countries.

25.46 Factors that influence risk management decisions include the public's perception of hazards to food and its expectations of what government will do to protect them from these hazards. This situation is especially difficult when public perception differs from the scientific evidence or the scientific evidence is limited. Technical feasibility, economic cost and preferences of society must also be taken into consideration.

25.47 The concept of risk and relative risk is a difficult and complex subject, and risk analysis is still evolving in Canada and at the international level. To be credible, risk analysis must be supported by a rigorous and systematic scientific approach.

25.48 Designing and resourcing food inspection programs based on the relative risks to food safety and the relative economic risk has been a goal of the Agency and its predecessors for many years. It requires that risks be identified and assessed based on relative risks, which means that risks across programs that are of equal severity receive a similar degree of attention and reflect an appropriate level of protection. Based on this analysis, the existing program design can be assessed to ensure that the program appropriately deals with the risks, and the appropriate level of resources needed to deliver the program can be determined. If excess resources are identified in certain programs, the Agency could reallocate them to programs that are under-resourced. If there is a shortage, the Agency would need to devise a plan for obtaining appropriate resources for its programs. This analysis makes it possible to demonstrate whether the level of effort in managing risks is appropriate, whether the level of resources is appropriate and whether all risks are being managed, as required.

25.49 We expected that the Agency would be able to demonstrate that it has appropriately resourced its programs based on risks, especially the risk to food safety and the economic risk. We found that it could demonstrate in some programs that existing resources had been allocated within the program based on risks. However, it has been difficult for the Agency to devise a process that supports risk-based resourcing across programs. As a result, the Agency cannot demonstrate that it has appropriately resourced its food inspection programs based on risks.

The Agency cannot demonstrate that it has appropriately resourced its food inspection programs based on risks.

Attempts at risk-based resourcing across programs have been unsuccessful

25.50 In our 1988 Report, Chapter 8, Agriculture Canada — Food Production and Inspection Branch, we recommended that food inspection resources be aligned on the basis of risk. We repeated this message in our 1994 Report, Chapter 13, Federal Management of the Food Safety System. Over the years, there has been some progress, particularly in allocating resources within certain food inspection programs. Identification and assessment of hazards in specific commodities, such as E.coli O157:H7 in unpasteurized juice, has also improved.

25.51 The Agency has made various attempts to establish a process that supports risk-based resourcing across all food inspection programs. The Agency-Wide Risk-Based Resourcing Project was one such attempt (see Exhibit 25.7). However, differences between food inspection programs, limited information and few common bases for comparing risks has made this a difficult task for the Agency. Applying this

Exhibit 25.7

Agency-Wide Risk-Based Resourcing Project

One of the more ambitious attempts to improve priority setting was the Agency-Wide Risk-Based Resourcing Project. The Agency's senior management acknowledged the following:

> **The project to target resources to areas of highest risk within the Agency is supported by program Directors as one of the most important new initiatives of the CFIA. When completed, it is anticipated that there will be greater consistency and a more level playing field across programs. The project will also provide an opportunity for stakeholder participation and hence a transparent and public accountability that is appropriate in determining what the public considers acceptable risk. This will also meet our commitment to the OAG and our responsibility to Parliament and the Canadian people.**

Within months of this statement, the project had ended because of competing demands and a lack of resources.

Source: Internal memorandum of the CFIA

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Source: Internal memorandum of the CFIA

exercise to its programs for food inspection, animal health and plant protection complicated the situation. Further, the Agency has not been able to find an appropriate model used by another food inspection entity that would serve as an example for the Agency.

Programs may not be appropriately resourced based on risks

25.52 We did not complete a resource review to determine if the Agency's food inspection programs were excessively or insufficiently resourced based on relative risks. However, we did note situations that raise questions about whether resources are appropriate based on relative risks.

25.53 One area concerns the inspection of imported commodities. Several of the Agency's internal reviews have identified the need for a more consistent, risk-based allocation of resources across these commodities. To illustrate, the Agency allocates 20 direct inspection staff positions to each of the meat import program and the import program for non-federally registered commodities that are covered by the *Food and Drugs Act*, even though the risks to food safety in both programs are not equal. Using risk categories devised by Health Canada before the creation of the Agency, raw meat imports are deemed low risk, while commodities covered by the *Food and Drugs Act* vary in risk from high to low. Because imported meat is regulated under trade and commerce legislation, it tends to be inspected at relatively few locations. Imported commodities regulated under the *Food and Drugs Act* generally cannot be inspected at entry, requiring inspectors to visit the importer's premises, of which the Agency estimates there are 3,450. Agency officials informed us that the meat import program is designed to manage trade concerns as well as food safety concerns, while the import program for commodities covered by the *Food and Drugs Act* is designed to manage only food safety concerns. However, the Agency has not conducted an analysis to demonstrate the adequacy of resourcing for imported commodities covered by the *Food and Drugs Act*. The need for risk-based resourcing is also demonstrated in the discussion on the non-federally registered sector, presented later in this chapter.

25.54 As well, in our review of the Agency's work planning process, we noted that planned levels of activity are negotiated based on the levels of effort required in the program design and the amount of available resources. We found that because of limited resources, the planned levels of activity were generally less than the levels required to deliver the program as designed. We also found that actual levels of activity performed were lower than those that were planned. This suggests that either the required levels of effort are excessive or the levels of effort actually delivered are inadequate.

The Agency took action to manage resource variances

25.55 Aware of this situation, the Agency conducted an analysis of the variance in its resources, estimating it to be short 500 staff positions across all of the Agency's inspection programs. The Agency informed us that subsequent analysis suggests that the figure of 500 is inflated. The Agency used the analysis to support a request for additional funding from Treasury Board, which it believes will partially address the gaps in program delivery. It has also reduced the required level of effort in some food inspection programs to match the available resources. While these measures have addressed the gaps, we noted that they were not based on a systematic assessment of risks. The Agency has recently begun another, more comprehensive resource review to support a further request for funding from Treasury Board.

25.56 In our view, despite the difficulties in establishing a process to support risk-based resourcing, it is important that the Agency revitalize its efforts to do so. This exercise would allow the Agency to demonstrate to Parliament that it has appropriately determined the resources it needs and the extent to which its programs are appropriately resourced based on relative risks. Such an exercise is also seen as an important means for the Agency to demonstrate that it has shown due diligence in carrying out its legislative commitments.

Guidance is needed to assist operational decisions

25.57 Staff makes operational decisions on how to manage resources among food inspection programs. We found three different approaches in the Agency:

- reliance on staff experience and knowledge of the industry and establishments and the legislative requirements to make operational decisions on program delivery;
- internal negotiation, such as the annual work planning process in which there is a negotiation of competing commitments and resource allocation;
- a priority analysis framework, such as that used by the scientific risk assessment unit to prioritize competing demands for risk assessments.

25.58 Agency staff told us that further guidance would be helpful when it is deciding how to allocate resources between competing program demands. For example, it would need guidance to determine whether a traditional inspection of a fish importer is of higher priority than a HACCP inspection of a fish processor. This guidance could be a priority listing or a series of criteria that outline what staff should consider in choosing among competing program demands.

25.59 The Canadian Food Inspection Agency should assess and report the extent to which its food inspection programs are appropriately resourced based on relative risks. Further, the Agency should develop guidelines to assist staff in making operational decisions on competing program demands.

Agency's response: *All the food inspection programs within the CFIA are designed and delivered on a risk-based framework. Risk considerations, with the highest consideration given to food safety risk, underlie all resourcing decisions within each of these programs.*

The CFIA's inspection programs are based on requirements and obligations set out in legislation, regulations, and/or government-to-government agreements. The CFIA, operating within its legislative and regulatory mandate, assigns resources and priorities based on risk within each of its food inspection programs.

However, the concept of relative risks, or the ability to compare different risks across programs, is still evolving at the international level. Although, the CFIA is at the forefront in international discussions on the application of relative risks, there are currently no models in existence which could be adopted by the CFIA. Therefore, to assess whether programs are appropriately resourced, based on relative risk, is extremely difficult and may not be possible for some time.

The CFIA is undertaking a comprehensive resource review in conjunction with the Treasury Board Secretariat. The goal of the review is to ensure that the CFIA's activities, including its food inspection programs, are appropriately resourced. The resource review, which is expected to be completed in April 2001, will assess all CFIA activities and resources and develop a projection of the resource requirements for the next three to five years.

An effective workplanning and quarterly reporting process involving both the program design and delivery staff of the CFIA will provide guidance on operational decisions and enhance reporting.

Management of Imported Commodities

25.60 Canadians are eating more imported food in greater varieties than ever before. In 1998 Canada imported over $15 billion of food, compared with approximately $9 billion in 1992. In particular, more ethnic foods and more varied fruits and vegetables have crossed our borders.

25.61 Managing safety is different for imported commodities than for commodities produced domestically. The federal regulatory authority has less control of food produced outside Canada. Further, managing imported commodities involves dealing with foreign jurisdictions as well as other federal organizations, such as the Canada Customs and Revenue Agency and the Department of Foreign Affairs and International Trade.

Limitations in legislation make it difficult to manage imported commodities.

25.62 We expected that the Agency would develop an overall strategic approach for imported commodities that would allow it to consistently manage the risks to food safety of imported commodities. We found that while the Agency has undertaken several important projects, it does not yet have a strategic approach for managing the sector. In addition, we found that limitations in the current legislation make it difficult for the Agency to manage certain imported commodities.

The Agency needs a strategic approach to manage imported commodities

25.63 Two internal reports have raised concerns about the absence of a strategic approach for imported commodities. Because each imported commodity is included as part of the domestic food inspection program for that commodity, there are inconsistencies in the approach to different imported commodities. The Agency has recently started planning a project on imported commodities as part of the initiative of the Integrated Inspection System. A strategic approach could eliminate some of these inconsistencies.

25.64 Although there is no strategic approach, the Agency has developed a number of tools to manage imported commodities. The Import Services Team develops import control systems and works closely with the Canada Customs and Revenue Agency to co-ordinate import activities. The Agency surveyed importers to better understand the import sector. There are a number of management information systems that allow the Agency to identify, inspect and track imported commodities. The creation of the Import Service Centres, which operate seven days a week and 20 hours a day, streamlined the import process.

Current legislation is limiting

25.65 Imported commodities that are covered under trade and commerce legislation, such as meat or fish, can be stopped at points of entry and inspected. Imported commodities covered by the *Food and Drugs Act* cannot. They are declared at the point of entry, but may only be inspected on the importer's premises, unless they are subject to an import alert or other special control measures. These limitations in the legislation make it difficult to manage imported commodities.

25.66 Agency officials explained that data and information on importers and the products they import collected by the Canada Customs and Revenue Agency, under the *Customs Act,* is not readily accessible to the Agency. For example, the Agency cannot access information about an importer's importing history.

25.67 To deal with these limitations, Bill C–80, the *Canada Food Safety and Inspection Act,* was tabled in the House of Commons. The Bill was proposed for passage by Parliament to allow the following:

- licensing of all food importers;

- inspection of all food products at points of entry;

- designation of specific points of entry for certain commodities;

- enhancement of inspectors' powers; and

- implementation of electronic commerce.

25.68 For imported commodities, the Canadian Food Inspection Agency should develop an overall strategic approach to enhance consistency. Further, the federal government should address limitations in existing legislation.

Agency's response: The CFIA agrees with this recommendation and has taken action. The CFIA is developing an overall strategic approach to enhance and guide the integration of various import control systems and improve the effectiveness and efficiency of control, monitoring, and enforcement actions.

In the spring of 1999, the Government of Canada introduced Bill C-80, the Canada Food Safety and Inspection Act. *This bill addresses the limitations in the existing legislation, which were identified by the audit.*

Non-Federally Registered Sector

25.69 The Agency has estimated that the non-federally registered sector includes roughly 5,000 food-processing establishments, which represent about half of the food-processing industry in Canada. This estimate grows to about 100,000 with the inclusion of retailers and restaurants. At the federal level, the main legislative base for managing risks to food safety in this sector is the *Food and Drugs Act*. The Agency is responsible for enforcing all food inspection related sections of the Act, in particular the prohibition against selling unsafe food, unwholesome food, or food that is "manufactured, prepared, preserved, packaged or stored under unsanitary conditions".

25.70 Management of this sector is a challenge due to its size and the variety of commodities it produces (for example, infant formula and cereal, baked goods, beer, soft drinks and candy). Because registration is not provided for under the Act, the Agency cannot be certain that it is aware of all operating establishments and the potential risks. Further, because provinces share responsibility for this sector, the Agency is required to work in partnership with the provinces, each of which has different legislation and funding.

25.71 Risk to the safety of a food commodity does not influence whether establishments that trade inter-provincially/territorially or internationally are federally registered or not. Rather, it is trade and commerce requirements that influence registration. For example, peanut butter, which is not federally registered, was categorized as a high risk (category 1) by Health Canada when the Department was responsible for this sector (i.e., before the creation of the Agency). In contrast, ketchup, which Health Canada considered a low risk (category 3), is federally registered (see Exhibit 25.8). Establishments trading in commodities that are non-federally registered are generally subject to a much less rigorous Agency inspection regime than registered ones. In some cases, however, they may be subject to provincial and territorial inspection.

25.72 We expected that the Agency would assess the risks to food safety that exist in the sector; determine the level of risk that will be managed; determine the resources needed to deliver the program appropriately; consult the provinces, industry and the public; and inform Parliament on the options that existed for changing the focus of its inspection activities. We found that specific risks had been identified and that priorities were set for these risks. Further, we found that the workplans had been developed so that effort was directed based on these priorities. However, we did not find an overall assessment of risk, a decision on the level of risk to accept, a determination of required resources or sufficient consultation on options.

The Agency has recognized a need to change the focus in managing the sector

25.73 After the amalgamation, the Agency recognized that this program could not be delivered as designed with existing resources. As a result, it undertook an organizational review then a program review to clarify the Agency's mandate for this sector as well as the design and priorities of the program. Based on these reviews, the Agency developed a work plan to use the existing program resources as effectively as possible.

25.74 Following the organizational and program reviews, the Agency created the Bureau for Food Safety and Consumer Protection. The reviews concluded that with existing resources of about 160 positions, the Bureau, through its programs would place priority on activities related to recall investigations and emergency response, and address specific problems in the food industry on a risk priority basis. To deal with specific risk related problems, the Agency will undertake projects that may include inspection, sampling, education and partnerships with industry and provinces. This new approach focusses on identifying specific risks and necessary industry controls to effectively manage the risks, rather than focussing mainly on establishment inspection. For example, the Agency has been working on projects with the sectors of ready-to-eat meat, sprouts, bottled water and unpasteurized juice. This approach means that the Agency will no longer endeavour to undertake regularly scheduled inspections of all non-federally registered establishments covered under the previous program design.

25.75 It is our opinion that while the change in focus may be reasonable, the Agency needs to more comprehensively assess the risks that must be managed, decide on how much risk to accept and determine the resources it needs to deliver an appropriate program based on those risk decisions.

Exhibit 25.8

Federal Registration Is Not Influenced by Risk to Food Safety

Commodity	Risk Level[1]			
	High 1	2	3	Low 4
Registration not required				
• Unpasteurized juice	X			
• Infant formula[2]	X			
• Peanut butter (processed)	X			
• Mineral water		X		
• Chocolate made from cocoa beans		X		
• Coffee				X
Registration required, if traded inter-provincially or internationally				
• Ready-to-eat meat	X			
• Processed eggs	X			
• Ketchup			X	
• Fruit jams and jellies			X	
• Pasteurized juice				X
• Raw meat				X

Notes:

1. Health Canada established the risk levels before the creation of the Agency in 1997.
2. Establishments that produce infant formula are subject to more rigorous requirements than other non-federally registered establishments.

Source: Documents of Health Canada and the CFIA workplans had been developed so that effort was directed based on these priorities. However, we did not find an overall assessment of risk, a decision on the level of risk to accept, a determination of required resources or sufficient consultation on options.

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Source: Documents of Health Canada and the CFIA

Assessment of overall risks is needed

25.76 The new approach is intended to focus on identifying and prioritizing risks based on risk assessments by Health Canada, reviews of problems resulting in investigations and recalls, information obtained through international environmental scans and the experience and knowledge of staff. However, it does not include an overall assessment of risks in this sector. An overall assessment would involve gathering information on matters such as the size and distribution of the sector, the hazards in the sector and the controls that industry has developed to manage those risks, among other things. A starting point is the work done by the Agency in the baked goods industry, which will provide important information for assessing the risks to food safety in this industry. The Agency has not undertaken studies for any other non-federally registered industries. Without a more comprehensive knowledge of the risks in these industries, the Agency cannot be sure what impact the change in focus will have on food safety.

25.77 The resources that are allocated to the non-federally registered sector continue to be based on already existing resources of 160 staff positions. This sector represents about half of the food production industry in Canada and is involved in half of the recalls for food produced, yet only some five percent of the Agency's resources are allocated to the sector. Even though the provinces and municipalities are also active in this sector, it is not clear whether federal resources are adequate, based on the risks that this sector may present. Without an overall assessment of risks and decisions on how much risk to accept, the Agency cannot determine the number of resources it needs to adequately deliver its programs. A process to support risk-based resourcing, as discussed previously, would allow the Agency to determine the resources necessary to deliver this program.

The focus has changed without broad consultation on inspection options

25.78 We would have expected the Agency to consider a range of possible options when undertaking a change in the management of this sector. This would involve asking questions such as whether it needs to create a resource intensive inspection regime, at one extreme, or whether it needs to merely respond to consumer complaints, at the other extreme. Further, we would have expected the Agency to consult widely with the provinces, industry, and the public and inform Parliament on the options available.

25.79 The Agency did not examine the full range of options available. In addition to constraints caused by the existing level of resources, the Agency believes that it is constrained from taking a greater role in managing this sector because of the allocation of responsibility between the federal and provincial governments outlined in the Constitution. It believes that the provinces are better positioned to deal with the challenges in this sector because they have greater legislative flexibility under their public health mandates.

25.80 Because the Agency shares the responsibility for this sector with the provinces, it is important that the Agency understand the provinces' activities, what information they hold and their contribution to food safety in the sector. In our 1994 Report we noted that federal officials responsible were "not obtaining complete information from the provinces on the nature, extent, timing and results of food safety inspections they undertake" with the aim to "co-ordinate inspection activities and share information." The Agency has assigned staff to work with provinces; however, sharing of information such as work plans remains limited. In discussions with provincial officials, we were told that the provinces were aware of the Agency's change in focus, but they were not consulted or

Without an overall assessment of risks and decisions on how much risk to accept, the Agency cannot determine the number of resources it needs to adequately deliver its programs.

otherwise involved. According to provincial officials, because the Agency still has not formally articulated its plans for this sector to the provinces, it is difficult for the provinces to plan for the impact that the change will have on their operations.

25.81 The Agency consulted its staff to determine the best way to manage the non-federally registered sector. However, it neither informed nor consulted the public on the change in focus. Parliament also has not been informed of the change, despite the significance of the related safety issues in the sector: the size of the sector, the risks of the sector, resources available for the sector and the fact that provinces also contribute to the management of the sector. We believe that the Agency needs to involve the public, the provinces and Parliament in a thorough examination of how much attention the Agency should give to the sector.

25.82 As part of the current change in focus to managing the non-federally registered sector, the Canadian Food Inspection Agency should assess the risks to food safety in this sector; determine the level of risk to accept; determine the resources needed to manage this sector based on the assessment of the risks; work more closely with the provinces; consult the provinces, industry and the public; and inform Parliament on the options available for managing this sector.

Agency's response: The CFIA disagrees with the Office of the Auditor General's recommendations for managing CFIA responsibilities in the non-federally registered sector. The CFIA's concern with the analysis and resulting recommendations results from the Office's misunderstanding of two significant issues: the CFIA's mandate in this sector; and, the complexity of risk and the CFIA's role in managing risk.

Mandate: The CFIA's ability to assume responsibility for the regulation of all food production and related activities in Canada is constrained by existing legislation and the limits of the Constitution of Canada. This position is based on a series of court decisions that have interpreted the division of authorities among the federal and provincial governments.

The Canadian Food Inspection Agency Act *authorizes the Minister of Agriculture and Agri-Food to order a recall of any food product that poses a risk to food safety, regardless of whether it originates from a registered or non-registered establishment. The CFIA takes immediate action in all situations brought to its attention that require a food safety investigation or a product recall. It should be noted, however, that the overwhelming majority of recalls are undertaken voluntarily by industry and that the CFIA monitors the effectiveness of these recalls.*

The CFIA will continue to collaborate with the provinces to provide seamless delivery of food inspection services. The CFIA has working arrangements (MOUs) in place with Health Canada and the provincial and territorial governments to facilitate food inspection activities. These MOUs are being amended and strengthened to increase their scope and to update activities and respective roles.

Risk: Risk is dependent on the probability of an adverse effect and the magnitude of that effect, resulting from food hazard(s). Risk is cumulatively influenced by the effectiveness of controls exercised at all stages of the food chain, including the consumer level. The concept and application of risk analysis continues to evolve internationally and the CFIA is participating in international fora developing this concept.

In the non-federally registered sector, the CFIA has recently implemented a new approach to identify and establish priorities for the management of risk. The CFIA recognizes that the level of risk is *reduced when the industry implements appropriate controls to prevent, eliminate, or reduce hazards to acceptable levels at key segments of the food chain and key stages of processing. The most effective way for the CFIA to have an effect on reducing risks is to work with the industry and other government agencies to identify potential hazards and to implement appropriate controls. To identify potential hazards, the CFIA reviews the risk assessments conducted by Health Canada; the information based on a review of food safety investigations, analytical results, and food recalls; information obtained through international environmental scans; and, the experience and knowledge of its specialists. The CFIA then identifies the current level of control exercised by the industry and the risk management approaches which are expected to have the greatest effect on improving the industry's controls to reduce the level of risk. In determining the most effective risk management approaches, the CFIA considers the role and possible contribution of its partners, such as the provinces, to managing the risk.*

The expectation of the Auditor General, to fully assess this sector in terms of potential hazards and levels of controls currently in place, is neither possible nor reasonable. The potential hazards associated with foods sold by this sector include the entire spectrum of microbiological, chemical, and physical hazards. Concepts related to risk analysis and relative risks are still evolving at the international level. As noted in the report, the Food and Drugs Act *applies to all persons who sell or process food. This includes all processing establishments, retail outlets, wholesalers, restaurants, food service outlets, and any other premises selling food of any description. The number of establishments, which is constantly changing, is well in excess of the 100,000 noted in the report. The approach suggested by the Auditor General lacks reasonableness and is far from the most cost-effective approach to reducing levels of risk.*

The CFIA focusses its resources on areas where there is a need for industry to strengthen its controls. The level of CFIA effort is influenced by the degree of control exercised by the industry, the nature and seriousness of the potential hazards, and the efforts taken by provincial and territorial governments. The CFIA agrees that it is important to work in partnership with the provinces and the CFIA's MOUs with Health Canada and most provincial and territorial governments facilitate risk management activities. The CFIA has informed the provinces of the priorities in the non-registered program sector and is planning a greater effort to consult with the provinces and industry, as noted in this report. As noted in the response to recommendation 25.150, the CFIA is working to enhance its consultation and outreach approach to encompass as wide a target audience as possible, including consumers and public health stakeholders.

The CFIA will continue to inform Parliament through the Minister on changes such as these, which enhance the effective and efficient operations of the food inspection programs.

Approach Based on Hazard Analysis and Critical Control Points

25.83 The approach based on the principles of hazard analysis and critical control points (HACCP) for food processing has been designed as a cost-effective alternative to improving food safety. It is rapidly becoming the international standard for trade in value-added products. Implementing HACCP-based systems will likely become essential for food producers and processors to enhance their competitiveness and access in the domestic and global markets. For example, in 1996 the United States began, in stages, to require that meat-slaughter

Systems based on the principles of hazard analysis and critical control points (HACCP) are widely believed to have several benefits, such as improving food safety.

and meat-processing establishments adopt a HACCP-based system, which affects Canadian establishments exporting to the United States (U.S.). In Canada, a growing number of food retailers will only accept food from suppliers that have a HACCP-based system. As well, the United Nation's Codex Alimentarius Commission strongly recommends the use of HACCP-based systems to improve food safety. As a result, HACCP principles are being applied throughout the food production continuum, including on-farm and at food retailers.

25.84 HACCP-based systems are widely believed to have several benefits. They are designed as tools that produce safer food and require industry to take more responsibility for the production of safe food. HACCP-based inspection programs can allow inspectors to focus on those areas that present the greatest risks to food safety and can help to improve efficiency in inspections. They can also allow some resources of the Agency to be allocated to other areas.

25.85 To implement a HACCP-based system, the processor must develop operational plans based on HACCP principles. It must then incorporate these plans into its operations and perform regular monitoring and verification activities to determine whether the plans are functioning adequately. HACCP-based systems are further explained in Exhibit 25.9.

25.86 As the food industry adapts its operations to HACCP-based systems, the government may adapt its approach to food inspection. In a traditional inspection program government inspectors focus on the food-processing establishments, inspecting the processing conditions and the final product before distribution. A HACCP-based inspection program is designed to include two functions. First, a review verifies that the processor's operational plans respect the HACCP principles and meet the minimum requirements of the program. Second, regular audits check the adequacy of the establishment's activities in ensuring compliance with the operational plans. HACCP-based inspection programs are further explained in Exhibit 25.9.

25.87 The Agency has further redesigned the poultry slaughter inspection program for establishments operating under the HACCP-based approach. This program requires industry to perform ante- and post-mortem detection activities. Agency inspectors then provide continuous monitoring and oversight of industry's detection activities. This program also includes a pathogen-reduction effort. The redesign is further explained in Exhibit 25.9.

The Agency has developed and implemented HACCP-based programs for most industries

25.88 Several programs have been developed to adapt the HACCP-based approach to individual industries. In 1989 the government began to develop the Food Safety Enhancement Program (FSEP) for the beef, pork, poultry, dairy, processed fruits and vegetables, egg, honey and maple syrup industries. Participation in the FSEP is voluntary. The first program to incorporate the HACCP-based approach in Canada and the first mandatory program in the world is the Quality Management Program (QMP), which began development in 1989 for the fish-processing industry (see Exhibit 25.10). A further redesign of the HACCP-based approach for the meat industry began in 1996 when the Agency started to develop the Modernized Poultry Inspection Program (MPIP) for the poultry industry.

25.89 We expected that the Agency would have a formal strategy to guide the implementation of the HACCP-based approach. This strategy would consider the time required to implement the approach, assess the impact on resources and determine a way to measure the

Exhibit 25.9

Approach Based on the Principles of Hazard Analysis and Critical Control Points (HACCP)

The key element of a HACCP-based system is its preventative nature and control throughout the manufacturing process at each critical step, called a critical control point (CCP). By identifying CCPs, the processor can easily detect and correct food safety concerns at these points before it processes and packages the product.

A HACCP-based system has seven basic principles:

1. conduct a hazard analysis;
2. determine the CCPs;
3. establish critical limits;
4. establish a system to monitor control of the CCP;
5. establish the corrective action to be taken when monitoring indicates that a particular CCP is not under control;
6. establish procedures for verification to confirm that the HACCP-based system is working effectively; and
7. establish documentation concerning all procedures and records appropriate to these principles and their application.

These principles are also used by Canada's trading partners, such as Australia, New Zealand, the United States and countries of the European Union.

Food Safety Enhancement Program (FSEP): A program for the industries of beef, pork, poultry, processed fruits and vegetables, dairy, egg, honey and maple syrup

To participate in this program, the processor identifies each CCP in an operational plan. These plans are reviewed and, if deemed adequate to control hazards, are recognized by the Agency. Processors must also develop a prerequisite plan to prove that their transportation, storage, sanitation, and other systems meet the Agency's criteria. These plans are also recognized by the Agency.

Once a processor has adopted a HACCP-based system, the Agency can replace traditional inspection with HACCP-based inspection. Under HACCP-based inspection, the Agency will check the adequacy of the controlling and monitoring procedures of the processor and verify the processor's records of the monitoring procedures. End-product testing is completed as necessary. The design of an inspection program determines how often the Agency inspects a processor.

Quality Management Program (QMP): A program for fish processors

Under this program, the processor must develop and implement a QMP plan, which includes an operational plan, a prerequisite plan and a regulatory action plan. The QMP plan outlines control measures that are necessary for the production of safe and wholesome product. The Agency assesses the plan for compliance with the Fish Inspection Regulations.

Regular audits by the Agency are designed to verify that these plans have been implemented as written and that they are effective in maintaining compliance with regulatory requirements.

Modernized Poultry Inspection Program (MPIP): Further program redesign of the HACCP-based approach for the poultry industry

Under current poultry inspection programs, Agency inspectors perform ante- and post-mortem (before and after death) inspection of the animal. Under the MPIP, trained and accredited industry staff conduct post-mortem detection, while Agency inspectors provide continuous monitoring and oversight of industry's activities. It is intended that industry will also perform ante-mortem detection, although the current MPIP pilot establishments do not yet do so. The MPIP also incorporates a pathogen reduction effort.

The MPIP is running as a pilot project. Research and development for the MPIP began in 1996; the pilot began in September 1997. The Agency set a goal of having 20 percent of poultry establishments participating in the MPIP pilot in 1999–2000. Today, participation is 11 percent (seven establishments).

(cont'd)

Exhibit 25.9 (cont'd)

The development of the MPIP has been a significant undertaking for the Agency. In developing the MPIP, the CFIA consulted industry, consumers and the unions representing CFIA employees. Pilot establishments were identified, and prepared to participate in the program. Training programs for staff, accreditation programs for industry detectors and presentation and finished product standards have also been developed. The Agency developed a pathogen reduction program. Flock sheets have been developed that extend the impact of HACCP on the production to consumption continuum. Regulations of the *Meat Inspection Act* are being updated, and equivalency for the inspection program from the United States (U.S.) is pending. The lessons learned in developing the MPIP will be useful to the Agency in developing similar programs for beef and pork.

Ante- and post-mortem inspections

Ante-mortem inspection involves the visual inspection of live animals for evidence of illness. It is effective in identifying conditions that cause abnormal behaviour. Post-mortem inspection involves an examination by sight, touch and smell of a carcass and organs. It is effective in detecting carcasses affected by diseases that are visible to the naked eye or can be detected by smell or touch, such as tuberculosis and cysticercosis. However, fewer animals going to slaughter have these diseases because of healthier livestock. Post-mortem inspection is not effective at detecting food-borne microbial pathogens of public health significance, such as certain strains of E. coli or salmonella. Generally, microbial hazards that cannot be detected through this means are a greater risk to consumers than those that can. Laboratory testing is the most common way to detect these hazards.

Pathogen-reduction effort

A pathogen-reduction effort involves laboratory testing to verify the effectiveness of control measures taken to control microbial hazards. Laboratory testing programs have been developed by the U.S. government in response to concerns raised by the National Academy of Science in the United States that new methods to supplement ante- and post-mortem inspection were needed to better detect microbial hazards. This is one of the reasons why the United States introduced its own Pathogen Reduction Program as part of the introduction of the HACCP-based approach. The U.S. program illustrates some of the important elements of a pathogen-reduction effort.

The U.S. government completed national baseline surveys of the prevalence of food safety hazards for eight categories of slaughtered animals. Using this data, the U.S. Department of Agriculture (USDA) established a salmonella performance standard and required establishments to achieve a prevalence for salmonella contamination that is below the prevalence rates shown in the baseline surveys. Salmonella has been targeted because it is the leading cause of food-borne illness among microbial pathogens, has a known presence on most types of raw meat, and it can be tested in a variety of products.

The USDA is also requiring establishments to test for generic E. coli because it is a good indicator of the adequacy of the establishment's process controls for fecal contamination. The USDA is adopting generic E. coli verification performance criteria based on the results of the baseline survey. The criteria are guidelines, not regulatory standards. The program is designed so that the USDA routinely tests for salmonella and the establishment regularly tests for generic E. coli to ensure that the product does not exceed the standards or guidelines. The routine testing also allows the USDA to measure the success of the implementation of its program. It is considering an expansion of microbial testing to include other pathogens, such as campylobacter.

Source: CFIA's documents and other sources

approach's effectiveness in improving the safety of food. We found that while the Agency continues the implementation of the HACCP-based approach, it does not have a formal strategy for the Food Safety Enhancement Program. We also expected that the Agency would be fully considering the further redesign of the HACCP-based approach and a pathogen-reduction program for the meat sector. We found that it has developed a new program for poultry, but has no formal strategy for the beef and pork industries.

25.90 In the 1997 business plan, the Agency stated that "in consultation with industry, [it] will move toward a staged requirement for [the] HACCP [-based approach] in all federally registered food-processing establishments." The Agency continues to consult industry on the implementation of the approach. As of June 2000, mandatory HACCP-based systems are only required for fish processors (QMP). For all other commodities, implementing HACCP-based systems remains voluntary.

25.91 The Agency has explained that participation in the Food Safety Enhancement Program (FSEP) for the meat industry has remained voluntary in part because of the mandatory requirement for HACCP-based systems in the U.S. Because of this U.S. requirement, many of the large and medium-sized meat establishments in Canada are operating under the HACCP-based approach. With so much of the industry operating under the HACCP-based approach, the Agency decided to allow participation to remain voluntary. The Agency has recently begun consultations with industry to discuss the transition to a mandatory program. The Agency has also confirmed its intention to continue to allow participation in the FSEP for all other commodities (dairy, egg, processed fruits and vegetables, honey and maple syrup) to remain voluntary.

A formal strategy is needed for the implementation of the HACCP-based approach

25.92 Planning for the Food Safety Enhancement Program began in 1989. In 1991 a goal of full implementation of mandatory participation in the FSEP was set for 1996. As a result of many factors, including the creation of the Agency, this goal was not achieved, and a new strategy to guide implementation has not been developed.

25.93 The Agency began to recognize HACCP plans under the FSEP in 1997. As of July 2000 the HACCP plans of 263 establishments had been recognized, 618 have applied for recognition (they have implemented a HACCP plan and are waiting for recognition), and 1,330 had not yet applied for recognition (see Exhibit 25.11). Over the last several years, the Agency has focussed its efforts on recognizing the HACCP plans of those meat establishments that export to the U.S. The Agency and industry were successful in meeting the implementation deadlines established by the U.S. However, at the present rate of recognition of HACCP plans, the transition to the FSEP will likely continue for some time.

25.94 The Agency had no plan for dealing with resource constraints that would be created during the transition period to the FSEP. We noted that the Agency had recognized the HACCP plans of some establishments several years ago, but it has not yet conducted HACCP audits because of a lack of resources. We also noted that some employees who had received HACCP training to recognize an establishment's HACCP plan were concerned that their training would be "stale" by the time they were available to complete audits. In the interim, inspectors continue to perform traditional inspection activities in these establishments, which requires them to be trained in both types of inspection activities.

25.95 The Agency has neither completed an analysis of the resources that could be freed from the implementation of the FSEP nor has it calculated the possible savings from the further redesign of the HACCP-based approach to include the beef and pork industries. It has estimated that about $4 million of resources currently allocated to the poultry program could be reallocated annually to areas of higher risk through the implementation of the MPIP. It also has not formally considered where any saved resources would be reallocated.

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Exhibit 25.10

Re-engineering the Quality Management Program

Recently, the Quality Management Program (QMP) was re-engineered for improvement. This exercise incorporated some good planning practices. In particular, an implementation strategy was developed and milestones and deadlines were set. All 985 fish-processing establishments have developed and implemented a QMP plan that incorporates all the principles of HACCP.

Source: CFIA's documents and other sources

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The development of the MPIP has been a significant undertaking for the Agency. In developing the MPIP, the CFIA consulted industry, consumers and the unions representing CFIA employees. Pilot establishments were identified, and prepared to participate in the program. Training programs for staff, accreditation programs for industry detectors and presentation and finished product standards have also been developed. The Agency developed a pathogen reduction program. Flock sheets have been developed that extend the impact of HACCP on the production to consumption continuum. Regulations of the *Meat Inspection Act* are being updated, and equivalency for the inspection program from the United States (U.S.) is pending. The lessons learned in developing the MPIP will be useful to the Agency in developing similar programs for beef and pork.

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25.97 Based on these observations, we believe that a formal strategy for guiding the implementation of FSEP and the further redesign of the HACCP-based approach is needed.

A further redesigned program for beef and pork could take many years

25.98 Under the regulations of Canada's 1907 *Meat Inspection Act*, and of similar legislation in the U.S., a government inspector must inspect every animal ante- and post-mortem (before and after death). As a result, traditional inspection programs have required an Agency inspector to perform these inspections. Under a further redesign of the HACCP-based approach, it is possible that ante- and post-mortem inspection be considered as a critical control point. As such, the roles of the government inspector and industry would change. Industry would perform ante- and post-mortem detection. The government inspector would then provide continuous monitoring and oversight of industry's activities in these areas. The MPIP is the Agency's only meat program designed to achieve this change in roles. To accommodate the change, the Agency is amending the regulations of the *Meat Inspection Act* so that establishments would not be in violation of the legislation. The U.S. Department of Agriculture has experienced some legal challenges and continues to work on making this change possible in the U.S.

25.99 Given that Canadian producers and processors are major exporters of products to the U.S., this situation has a significant influence on Canadian food inspection programs. Because of this influence and the legal challenges that the U.S. has experienced in making this change possible, the Agency has chosen not to continue to be in the lead internationally in developing programs and preparing industry for this change in roles.

25.100 Many members of the international food safety community believe that there are a number of advantages in requiring industry to perform ante- and post-mortem detection with continuous monitoring and oversight by government officials. For example, because post-mortem inspection is limited in its ability to detect hazards that present the highest risk, the change in roles would allow government inspectors to spend time on those activities that protect against the highest risks. Finally, it allows industry to take greater responsibility for detecting unsafe food.

25.101 The change in roles is a goal for a number of Canada's trading partners, in particular the U.S. and Australia. The U.S. continues to pilot test projects in the poultry and pork industries, and Australia is running a pilot project in the beef industry. These projects are similar to the MPIP.

25.102 The MPIP began four years ago. No programs involving the requirement

Exhibit 25.11

Number of Establishments With Recognized HACCP Plans Under the FSEP, as of July 2000

Commodity	Number of establishments	Applications for HACCP recognition		Number of recognized plans	
Meat	734	486	(66%)	226	(31%)
Dairy	262	57	(22%)	22	(8%)
Egg	358	28	(8%)	7	(2%)
Processed fruits and vegetables	266	41	(15%)	6	(2%)
Honey	87	2	(2%)	1	(1%)
Maple syrup	241	4	(2%)	1	(0.4%)
Total	**1,948**	**618**	**(32%)**	**263**	**(14%)**

Source: CFIA's establishment tracking report

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Honey	87	2	(2%)	1	(1%)
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Total	**1,948**	**618**	**(32%)**	**263**	**(14%)**

Source: CFIA's establishment tracking report for industry to perform ante- and post-mortem detection in either the beef or pork industries have been initiated, although there has been some initial planning. Given the length of time it has taken to implement the MPIP and the fact that the Agency has not started programs for these other industries, changes could take many years.

There is no pathogen-reduction effort for the Canadian market

25.103 A pathogen-reduction effort involves laboratory testing to verify the effectiveness of the control measures that exist to control microbial hazards. Laboratory testing programs have been developed in the U.S. in response to concerns raised by the U.S. National Academy of Science that new methods be developed to better detect microbial hazards. The effort involves the setting of standards, guidelines or action levels for unacceptable prevalence rates of certain hazards in the food supply based on existing prevalence rates of microbial hazards. These prevalence rates are determined through national baseline surveys. Establishments are required to regularly test samples to monitor the prevalence of microbial hazards in their processing systems and final products. Sample results must be below these standards, guidelines or action levels for the establishment to be able to sell its product. If the standards, guidelines or action levels are exceeded, then the establishment must take action to improve its controls. The government can also use the sample results to measure the success of the implementation of the HACCP-based approach and the pathogen-reduction effort.

25.104 Because of the U.S. requirements, all Canadian meat exporters to the U.S. must meet the U.S. standard for salmonella and the U.S. guideline for generic E. coli. In the event that the standard was not met, the establishment would not be eligible to export but would still be able to produce for the Canadian market because there is no similar pathogen-reduction effort in Canada.

25.105 Canada has not introduced a pathogen-reduction effort as part of the HACCP-based approach (FSEP) for beef, pork or poultry, except for processors involved in the MPIP pilot. The MPIP pathogen-reduction effort, based on the U.S. Pathogen Reduction Program, requires testing for salmonella and generic E. coli. Based on the results of the national baseline survey, interim action levels for these microbial hazards have been set for establishments that participate in the MPIP.

25.106 To introduce a pathogen-reduction effort in Canada, the Agency would need national baseline surveys on the prevalence of pathogens. The Canadian Poultry and Egg Processors Council initiated such a survey for the poultry industry. This survey was completed with the assistance of the Agency, Health Canada and Agriculture and Agri-food Canada. The results of the survey were used to develop the MPIP pathogen-reduction effort. The Canadian Meat Council intends to undertake a national baseline survey for the beef and pork industries, pending the acceptance of a funding request to Agriculture and Agri-Food Canada.

25.107 The decision of whether to embark on initiatives, such as industry involvement in ante- and post-mortem detection and pathogen-reduction efforts, is a matter for the Agency and the government to decide. The Agency has decided to move slowly on these initiatives in the wake of legal challenges in the U.S. Given the issues of food safety and value-for-money, we believe that the Agency needs to involve the public and Parliament in a broad public debate on questions such as the following: Should participation in HACCP-based programs be mandatory? Should Canada be leading internationally in implementing the further redesign of the HACCP-based

Except for processors involved in the pilot of the Modernized Poultry Inspection Program (MPIP), there is no pathogen-reduction effort for the Canadian market.

approach in the meat industry? Should a pathogen-reduction effort be launched for the Canadian market?

25.108 The Canadian Food Inspection Agency should develop a more formal strategy for managing the implementation of the approach based on the principles of hazard analysis and critical control points. Further, the Agency should consider developing programs that require industry to perform ante- and post-mortem detection for the beef and pork industries, should ensure that national baseline surveys are available, and should consider implementing a pathogen-reduction effort for the meat industry.

Agency's response: *The CFIA has a formal strategy for managing the implementation of the hazard analysis critical control points (HACCP) based approach. As noted by the Auditor General, the CFIA stated in its 1997 Business Plan that it will move toward a staged requirement for HACCP in all federally registered food processing establishments. This approach is being implemented. As indicated in the audit, all targets and goals for implementing HACCP in the meat and fish sectors were met or surpassed. The CFIA is an international leader in implementing HACCP throughout the entire food chain from "gate to plate". As well, the CFIA enjoys broad consumer and industry support for the pace and direction it has set in implementing HACCP following the staged requirements.*

A number of HACCP initiatives are underway in various sectors. The CFIA is developing an approach for the evaluation of these projects and subsequent consultation with stakeholders on implementation decisions.

With respect to beef and pork meat inspection, policy decisions will be made following consultations that will focus on factors such as scientific (food safety), legal, international trade, and human resource implications. Other program changes, including the issues raised by the Auditor General, will evolve following full consultation with all stakeholders.

Management of Compliance Activities

25.109 A primary goal of food inspection programs is to verify that industry complies with the legislation governing the food industry. To assess compliance, Agency inspectors inspect premises and products. They also investigate complaints from industry or the public.

25.110 If inspectors find evidence of non-compliance, they have a number of options available to secure correction of the problem by establishment management (see Exhibit 25.12). The compliance action taken by the inspector depends on several factors, including the nature of non-compliance and the legislation governing the inspection. Inspectors inform establishment management of the non-compliance problems and may set deadlines for their correction. If the problems remain uncorrected, inspectors may take more serious compliance action or recommend enforcement (i.e., legal) action. In cases where serious health and safety hazards are found, inspectors have the authority to take immediate corrective measures by shutting down production, detaining or seizing products or by revoking the establishment's registration or license, until the problems are corrected. It is common for inspectors to work with establishment management to obtain compliance.

25.111 Under current legislation the compliance and enforcement options vary greatly. Some legislation is limiting because it does not provide options to appropriately deal with the range of seriousness of the non-compliance problems. To address these limitations, the proposed *Canada Food Safety and Inspection Act* was designed to enhance the Agency's ability to develop regulations that would provide options to better deal with the range of seriousness of non-compliance problems. It would also provide more consistency in its compliance options across all food inspection programs.

25.112 Agency policy requires inspectors to take the action that they believe will lead to compliance in the shortest time and that will prevent problems from recurring. This policy is important because in serious cases of non-compliance, failure to take appropriate action could result in the sale of unsafe food. The Agency relies mainly on inspector training and experience, inspection manuals, supervision, and information systems to help ensure that inspectors appropriately manage non-compliance.

25.113 We expected that the Agency would have mechanisms in place to help ensure that the compliance activities of its food inspection programs are delivered appropriately. We found that while these mechanisms exist, the Agency has not taken full advantage of them. Further, in our review of 21 inspection files, we identified a number of cases in which the same or similar non-compliance problems persisted or recurred. Given these problems, we found that the action taken was insufficient to achieve the Agency's goal of timely correction of non-compliance by establishment management either because inspectors did not take more serious action or because the legislation did not provide adequate options for more serious compliance action.

Problems exist in compliance activities

25.114 We reviewed 21 inspection files for establishments that had either recalled food or been prosecuted in the last two years. In 1999–2000 the Agency participated in 243 recalls and was responsible for 59 successful prosecutions. In reviewing these files, we looked at reports on inspections carried out before and after the creation of the Agency. Further, we interviewed the inspectors responsible for 12 of these establishments. Our review found the following:

- In 10 establishments, inspectors either did not verify that establishment management had corrected the problems within the given deadlines or did so on only some occasions. In 11 establishments, inspectors regularly verified that establishment management had corrected the problems within the deadlines given.
- In 16 of the 21 establishments, we noted that the same or similar problems recurred or persisted. In six of these, the inspectors either did not choose or, because of legislative limitations were unable, to take more serious action as a means to secure correction of the problem. In 10 establishments, we found that inspectors had taken some more serious action to secure compliance. This action included increasing inspection frequency, detaining products, issuing warnings to establishment management that prosecution would be recommended, and prosecuting the establishment.
- The significance of these failed compliance actions is demonstrated by the

Exhibit 25.12

Compliance and Enforcement Options, Depending on the Legislation

- Warnings
- Collection of samples
- Downgrading of the establishment's rating
- Demand for notification of imported products
- Seizure of product
- Mandatory recall orders
- Injunctions
- Refusal to issue or renew licences, registrations or permits
- Suspension, revocation or cancellation of licences, registrations or permits
- Shutdown of production
- Enforcement (i.e., prosecution)
- Monetary penalties
- Forfeiture (on conviction)
- Removal of illegal imports
- Arrest

Source: CFIA's Compliance and Enforcement Manual and other sources

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Source: CFIA's Compliance and Enforcement Manual and other sources

fact that in the 16 establishments where the same or similar problems continued or recurred, most of these problems persisted for 12 to 28 months. The problems related to prevention of cross contamination, housekeeping, condensation, rust, flaking paint, and product labelling (see Exhibit 25.13). Given the persistence of these problems, we question whether the actions taken were sufficient to secure correction of the problem. These problems also highlight the need for better compliance options under the Agency's legislation.

In 16 of the 21 establishments we reviewed, we noted that the same or similar problems recurred or persisted for 12 to 28 months.

25.115 Because our sample was limited in size and focussed on high risk establishments, conclusions on all Agency compliance activities can not be drawn from our review. Nevertheless, we are concerned that a high proportion of the reviews identified problems with compliance actions, and, in particular, that the same or similar problems recurred or persisted.

More attention to managing compliance activities is needed

25.116 Program audit is the chief mechanism that the Agency uses to determine whether inspectors are delivering food inspection programs according to the Agency's standards. As such, it is an important means to assess whether they are taking sufficient and appropriate action to obtain compliance.

25.117 Since the amalgamation of the three departments, the Agency has had some difficulty integrating the program audit functions; it harmonized them only in early 1999. To date, the Agency has only conducted three pilot audits, which are not yet complete.

25.118 Audits of the Agency's programs by our international trading partners and Health Canada's assessments also provide information on the results of the Agency's activities. Several of these audits and assessments have been completed since 1997. However, the Agency cannot rely solely on them for information because it does not determine their scope and timing.

25.119 The Agency has taken steps to improve its enforcement (i.e., legal) actions (see Exhibit 25.4).

25.120 The Canadian Food Inspection Agency should identify and adopt

Exhibit 25.13

Examples of Persistent Problems Noted by Agency Inspectors

Prevention of cross contamination

- **"Sales personnel were seen frequently moving through the raw product area to reach [the] finished product area to pack and ship their orders. These practices can lead to the contamination of finished ready-to-eat products with micro-organisms from raw [products]."**
- **"There are no hand washing facilities in [the] cooking and packing areas. Since raw [products] are also handled in these areas, potential exists for contamination of cooked products. These practices can lead to the contamination of finished ready-to-eat products with micro-organisms from raw [products]."**

Housekeeping

- **"Sanitation of underside of equipment to be properly cleaned on a daily basis."**
- **"I found your sanitation in the grading room and equipment as totally unacceptable. Your sanitation protocol states that grading room and equipment are washed daily after … [product] grading. Your immediate attention is required to ensure a safe food product."**
- **"[product] parts [found] on scale."**

Condensation

- **"Prep[aration] room — product stored under reefer [i.e., refrigeration] deflector [condensation]."**
- **"New meat storage cooler — condensation around ceiling access."**
- **"Chopping and stuffing [area] — condensation build-up on reefer units."**

Source: CFIA's inspection files

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Source: CFIA's inspection files

management practices that reasonably assure the achievement of its policy of timely correction of non-compliance with no recurrence. The Agency should develop possible regulatory and legislative options to provide the necessary tools for dealing with non-compliance.

Agency's response: *The CFIA has identified the need for improved consistency in compliance strategies and approaches. Compliance strategies and approaches that complement the current enforcement policy are being strengthened. The CFIA is pleased that the Auditor General has recognized the significant steps that the CFIA has taken to improve the quality and consistency of its enforcement actions.*

The CFIA will continue to pursue and develop legislative options and recommend their introduction before Parliament.

Management of Human Resources

25.121 Because of its status as an agency, the CFIA has more flexibility than other government departments in human resource management. As a separate employer exempt from the *Public Service Employment Act,* it can develop and apply its own recruitment and staffing policies and practices. The Agency also has the authority to design and implement programs for job evaluations and salary and administration, which are distinct from the public service. However, it must seek approval for its negotiating mandate from the Treasury Board.

25.122 In 1999 the Agency was one of several government organizations that participated in a study by the Committee of Senior Officials. The committee was charged with assessing the regulatory and inspection community in the government, which was identified as being at risk. Among the committee's concerns were the relatively high age profile of some occupational groups and high future attrition rates. The study is discussed in more detail in our report, Chapter 24, Federal Health and Safety Regulatory Programs.

The Agency has made progress in human resource management

25.123 We expected that the Agency would have a plan for the work force it needs in the future. We found that the Agency had made progress in human resource management. Examples include the training program for the implementation of the HACCP-based approach, hiring and promoting in the executive category, consolidating the 27 bargaining units into four, completing negotiations on several union contracts, commencing the review of Primary Product Inspectors and developing a guide to help managers plan for human resources.

The Agency needs to better understand future human resource requirements

25.124 However, there are a number of concerns that could affect the Agency's ability to manage its resources in the future. Analysis of the Agency staff profile indicates an aging work force, particularly in the veterinary science and inspector groups. The Agency estimates that by 2006, 734 indeterminate employees will be eligible to retire, including 33 percent of the veterinary science group and 29 percent of the inspector group. We were told that the Agency has already experienced some difficulty in recruiting for some positions. The Agency needs a plan to deal with these future retirements and departures. Also of concern is that there are no competency profiles for the inspector group to help the Agency hire the right people. The Agency has no national database to track and manage training. Because the Agency has no information on turnover of HACCP-trained staff, it does not know the extent of loss of staff with this important skill. Adequate training is required to ensure that recruits are prepared for their job. We have determined that it is often difficult for staff working in meat hygiene, the Agency's largest front-line inspection group, to find time for training because of resourcing pressures. Finally, the conflict-of-interest and post-employment code could be strengthened.

The Agency has not measured employees' views on the work environment Agency-wide, despite a commitment to do so.

25.125 In the Agency's 1998 human resource strategy, it stated that progress in fostering a positive work environment would be measured by performance assessment and employee feedback tools such as surveys and focus groups. Most other organizations in the federal government commonly use these tools. Although the Agency has begun to conduct focus groups with specific groups at their request, it has not measured employees' views on the work environment Agency-wide, despite the commitment to do so.

25.126 The Canadian Food Inspection Agency should take additional action to identify what it needs in a future work force and to develop a plan for creating the work force that it needs to deliver its mandate in the future. The Agency should measure employees' views on whether Agency values are fully practiced.

Agency's response: *The CFIA agrees with the recommendation and is committed to implementing its 2000-03 HR Strategy that identifies key challenges and actions.*

The CFIA is now receiving feedback concerning whether its values are fully practised through the HR Planning pilots. It will continue this process over the next three years to support the implementation of the Strategy.

Key Information for Making Management Decisions and Measuring Success

25.127 Responsibility for collecting and analyzing information on food safety is as highly diverse as the responsibility for contributing to safe food. Information is held by individuals, municipalities, industry, provinces and federal organizations. Health Canada does food research, risk assessments and, food-borne illness analysis. The Canada Customs and Revenue Agency tracks declared food imports and Statistics Canada monitors food industry activity and growth. The Agency's role in collecting information is limited; it relies mainly on the information collected by others to carry out its activities. Its managers need to have a good understanding of risks to food safety if they are to make sound risk management decisions. This information also allows the Agency to measure and report the extent to which its management activities and any new initiatives have achieved their objectives.

25.128 Collecting and analyzing information on food safety is made more difficult by the fact that the information is often incomplete. For example, it is estimated that only one to five percent of food-borne illnesses are reported in the U.S. (see Exhibit 25.14). Further, with so many holders of information, any breakdown in the sharing of the information could result in its loss.

25.129 We expected that the Agency would obtain the information it needs, either by establishing its own information systems or by working effectively with its partners, to make effective management decisions and help measure its success in contributing to the safety of the food supply. However, we found that it lacks some of the necessary data.

The Agency has many types of information

25.130 In addition to the experience and knowledge of staff, which routinely forms an important part of decisions, we found many types of information on food safety that are used in the Agency:

- **Incidents.** Managers are well informed of current outbreaks and incidents that might result in recalls.
- **Surveillance and monitoring.** The Agency has a routine sampling program to detect the incidence of chemical residues and microbiological contaminants in foods. However, the value of this information is limited as the information is not sufficiently detailed and there is little analysis of the results to determine overall trends or developments.
- **Risk assessments.** The Agency and Health Canada conduct scientific risk assessments.

25.131 There is important information missing from Health Canada on food-borne illness in humans and the prevalence of pathogens in the food supply has not been determined.

25.132 In Canada, food-borne illnesses are reported to municipal and provincial health departments and to Health Canada through surveillance systems or laboratory-based reporting systems. Officials at the Agency and Health Canada recognize that these systems do not provide appropriate information for the Agency to make the many different management decisions that are necessary. We raised concerns about disease surveillance in our 1999 Report, Chapter 14, National Health Surveillance: Diseases and Injuries.

25.133 Limited work has been done to obtain information on the prevalence of pathogens in the food supply. As noted earlier, a national baseline survey has been completed for the poultry industry. Such a survey may be undertaken for the beef and pork industries. We are not aware of any similar initiatives in other commodity sectors to obtain similar information.

Better information could be used in many ways

25.134 Information on food-borne illnesses in humans is important because it would help the Agency know the extent to which these illnesses are related to its

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Exhibit 25.14

Collecting and Analyzing Information on Food-Borne Illness: The U.S. Experience

In January 1997, following a number of serious outbreaks of food-borne illnesses, the President of the United States announced a plan to strengthen and improve American food safety. One of the initiatives was to improve the information on food-borne illnesses in humans, more specifically to build a national early warning system to detect and respond earlier to outbreaks of food-borne illnesses, and to provide the data needed to prevent future outbreaks. This system would also provide statistics on these illnesses. Another initiative was to improve the information on the prevalence of pathogens in the food supply, namely to increase research to develop new tests to detect food-borne pathogens, to survey the food supply to determine the prevalence rates of pathogens and to assess the risks in the food supply. The result of this political and financial commitment has led to a better understanding of diseases entering the U.S., the way specific government programs are reducing pathogens and the overall scale of food-borne disease in the U.S.

To overcome the difficulties caused by such a large number of unreported cases of food-borne illnesses, U.S. agencies have set up a network of active surveillance sites. The collaborating FoodNet sites have a system to actively identify laboratory-confirmed cases of these illnesses and to perform surveys that more accurately estimate the actual number of people who become sick with diarrhea each year.

The FoodNet project measures the impact of programs aimed at reducing the pathogens in meat and poultry as well as identifying outbreaks that might previously have been undetected or treated as isolated cases

Source: Documents of the U.S. government and other sources

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Source: Documents of the U.S. government and other sources areas of responsibility; more specifically, the Agency would know who is getting sick and why. This information would help the Agency develop plans and approaches to manage those hazards and commodities that are affecting the health of humans and would help it to measure the success of its efforts.

25.135 A national baseline survey provides useful information to understand the prevalence of pathogens in food. In addition, the information can be used to redesign programs, measure the success of a program redesign and set standards of expected performance from industry.

The Agency must work with its partners

25.136 As discussed earlier, collecting and analyzing information on food safety is not the sole responsibility of the Agency. However, the Agency must ensure that it has adequate information to deliver its food safety mandate. While the use of information by partners is often different, the need for it is not. It is important that the partners in food safety work together to collect and analyze the information they need.

25.137 The Agency and Health Canada are already co-operating and making advances with initiatives such as their Food-borne Illness Outbreak Response Protocol. This protocol should allow the two organizations to bring epidemiological and recall information together and should produce a more sensitive and responsive system for dealing with food outbreaks. However, information and analysis is still needed to support policy making, strategic decisions and proper resource decisions.

25.138 The Canadian Food Inspection Agency should work with Health Canada and other organizations to ensure the availability of information needed to manage its food inspection programs and measure the success of its contribution to the safety of the food supply. The Agency should develop better information systems and structures to support management decision making and performance measurement.

Agency's response: *The CFIA will continue to work closely with organizations that provide information relevant to the management of its food inspection programs. As noted by the Auditor General, the CFIA is working with Health Canada on initiatives such as the Food-Borne Illness Outbreak Response Protocol. As well, the CFIA is working in partnership with industry, Health Canada, and Agriculture and Agri-Food Canada to conduct base line surveys in meat slaughter plants. The CFIA currently gathers a variety of information on products and establishments needed to assess industry's compliance with food inspection regulations.*

Health Canada has the mandate to conduct studies to assess the effectiveness of the CFIA's food safety activities. Three assessments have been undertaken during the past year. The CFIA, through ongoing performance reporting, reports on performance measures that focus on the CFIA's contribution to food safety.

As part of the Y2K initiative, the CFIA successfully consolidated over 100 information systems into 17 new and fully integrated systems. Work is ongoing to enhance the functionality of these systems. The new systems, when fully developed, will facilitate in the collation and presentation of information required to support management and performance measurement.

Communication With Stakeholders

25.139 Being a transparent and responsible organization means maintaining an appropriate dialogue with stakeholders to manage expectations. Among the Agency's important stakeholders are staff, industry groups, public interest groups, the provinces, parliamentarians and the general public. Transparency requires openness with information, consultation and good public reporting. Because the nature of communication will vary depending on the decision, an organization needs an overall risk communication framework. If an organization is not sufficiently transparent and responsible, then accountability is lacking, trust is damaged, and credibility is at risk.

25.140 Risk communication is important for the Agency because it deals with groups and citizens for whom the concept of risk holds different meaning. Staff may be influenced by work experience and job security; industry may be influenced by its markets; and the public may be influenced by its understanding of and expectations for safe food. A risk communication framework would set out the approach to addressing these different groups and to communicating each type of management decision.

25.141 We expected that the Agency would operate in a sufficiently transparent manner. Specifically, we expected that as appropriate, the Agency would inform stakeholders of risks and involve them in finding risk management options, consider their concerns in its risk management decisions and make these decisions openly and transparently. We found that the Agency lacks a risk communication framework, although work has begun on one. Even without the framework, the Agency has undertaken a number of initiatives to improve communication. However, we found instances (discussed below and in the previous sections on the non-federally registered sector and on the HACCP-based approach) in which the Agency did not maintain sufficient dialogue with stakeholders, particularly Parliament and the public.

The Agency's corporate business plan and annual report fall short of expectations

25.142 The *Canadian Food Inspection Agency Act* requires the Agency to produce a corporate business plan and an annual report. These accountability requirements were included in the Act because of the greater financial, human resource and contracting freedoms given to the Agency. These requirements recognize that the Agency must consider stakeholder concerns when it makes key decisions.

25.143 The publication of the corporate business plan gives the Agency an opportunity to present its strategic direction. The Act requires that the plan include objectives, strategies to achieve its objectives, and expected performance against these objectives. The 1997-2000 plan contains no clearly stated, concrete performance expectations, and only limited information on milestones, time frames, expected levels of effort, and measures of goal achievement. In our view, the information in this plan is not adequate to allow Parliament and the public to later judge how well the Agency actually performed.

25.144 The Act also requires that the annual report include an assessment by the Auditor General of the fairness and reliability of the information that it contains. In our latest assessment, we found that the performance information in the annual report does not yet provide readers with the information necessary to understand the extent to which the Agency is achieving its objectives.

25.145 In our annual assessments, we have found that progress toward good performance reporting has been slow, and targets have been repeatedly missed. For example, the Agency made a commitment in its 1997-98 annual report to develop its performance management and reporting system within three years. A year later, the

In our annual assessment of the Agency's Performance Report, we found that progress toward good performance reporting has been slow and targets have been repeatedly missed.

Agency said that it would need at least four to five years. Current internal plans indicate a delay of a further year to complete this project. We did find, however, that the Agency has begun to develop a new performance management framework, which it believes will significantly improve future performance reports. Although this initiative is a move in the right direction, the Agency agrees that much more work needs to be done. In our view, the Agency will require considerable effort to provide the type of performance reporting anticipated in the *Canadian Food Inspection Agency Act.*

25.146 Stakeholder consultation is another means to consider stakeholder concerns in making management decisions. The Agency prides itself on its approach of consulting with industry and other stakeholders to obtain their feedback on and support for its plans. We reviewed a number of key management decisions to assess the extent of consultation with stakeholders, including staff, industry, the provinces and the public (see Exhibit 25.15). Our review indicates that the Agency's approach to consultation is not as extensive as it could be.

Exhibit 25.15

Extent of Stakeholder Consultation in the Agency's Key Management Decisions

	Has the Agency communicated with			
Management Decisions	**Its staff?**	**Industry?**	**The provinces?**	**The public?**
Legislative and regulatory changes (*Canadian Food Inspection Agency Act*, Bill C-80 - *Canada Food Safety and Inspection Act*, cost recovery)	Yes	Yes	Yes	Yes
1997 corporate business plan	Yes	Yes	Yes	Yes
Integrated Inspection System	Yes	Yes	On some issues	Not since the 1997 corporate business plan
Implementation of the HACCP-based approach	Yes	Yes	Yes	On some issues
Change in focus in non-federally registered sector	Yes	No, but some consultation is planned	No, but some consultation is planned	No
Cross program risk-based resourcing	Yes	Not since the 1997 corporate business plan	Not since the 1997 corporate business plan	Not since the 1997 corporate business plan
Updated corporate business plan	Yes	Limited	Not since the 1997 corporate business plan	Limited

Source: CFIA documents and other sources

The Agency has undertaken a number of initiatives to improve communication

25.147 While the Agency has not consistently used the corporate business plan, the annual report and stakeholder consultation to engage the public and Parliament, it has undertaken a number of initiatives to communicate with the public and consider stakeholder concerns in making management decisions. For example, we noted that the Agency has done the following:

- consulted extensively to develop its first corporate business plan;
- has continued to consult extensively in other areas, such as legislative and regulatory change, in accordance with the Treasury Board's Regulatory Policy;
- has continued to improve its Web site;
- developed a Memorandum of Understanding with the Health Policy and Communications Branch of Health Canada to improve delivery of communication services and activities;
- launched the "FightBac" campaign to improve consumer awareness of risks to food safety; and
- drafted a risk analysis framework, in keeping with modern risk communication practices.

The approach to communication with stakeholders needs to be improved

25.148 In our audit, we noted other tendencies that suggest that the Agency could be a more transparent organization, particularly for the public.

- We compared the Web sites of the Agency and Health Canada with those of the U.S. Department of Agriculture and Food and Drug Administration. The U.S. Web sites have more information on risks to food safety, such as risk assessments, compliance actions not involving prosecution, reports on the implementation of the HACCP-based approach and the results of national baseline surveys.
- Key advisory mechanisms draw heavily from industry. Among the members of the Ministerial Advisory Board, there are eight industry representatives, three academics, and one consumer representative. The Agency's "Group of Thirty" key stakeholders includes 30 industry groups, seven academic and professional groups and one consumer group.
- The Agency's new communication strategy envisions only one-way communication with its external stakeholders and does not lay out a framework for two-way dialogue.
- The Agency does not keep executive committee minutes.
- The Agency does not document the advice on scientific issues from the Associate Vice-President, Science Evaluation to the President.

25.149 The safety of food is important to all concerned, from producers to consumers. And the consequences of consuming unsafe food can be significant. Further, many players are responsible for contributing to food safety. For these reasons, it is important that the Agency operate as a more transparent organization by involving all those who have a stake in safe food.

25.150 The Canadian Food Inspection Agency should develop and implement an overall risk communication framework that would engage all stakeholders, as appropriate, in key management decisions. The Agency should establish clear and concrete performance expectations for the corporate business plan and all its initiatives. The Agency should also promptly develop and implement performance reporting systems that will enable it to provide the type of performance information anticipated in the *Canadian Food Inspection Agency Act*.

***Agency's response:** The CFIA, as a government agency that manages risks on a day-to-day basis, engages in two-way communication with all its stakeholders. Stakeholder consultations are an integral part of the CFIA's services. The CFIA is preparing to implement a risk communication framework that espouses internationally agreed-upon principles of* *risk communication. By adopting the most current principles of risk communication, the CFIA will enhance its ability to ascertain the most effective and appropriate ways of communicating risk.*

We recognize the importance of two-way communication between a wide range of stakeholders. The CFIA engages in two-way communications through its media relations, Web site, and enquiries functions. The CFIA is working to enhance its consultation and outreach approach to encompass as wide a target audience as possible, including consumers and public health stakeholders.

Preliminary performance expectations have been developed and are articulated in the recent business plan update. The CFIA agrees that further work is required in developing performance targets. The ongoing development of the performance management framework will provide the foundation for establishing performance targets.

The CFIA reports performance information according to Treasury Board guidelines in the Annual Report and the Agency Performance Report. An updated Planning, Reporting and Accountability Structure (PRAS), approved by Treasury Board in September 2000, defines the performance reporting framework at the corporate level.

A quarterly review process, designed to strengthen performance reporting, is being piloted in the CFIA. As noted previously, the reporting systems are being further developed and implemented throughout the CFIA.

Corporate Capacity

The Agency's corporate capacity continues to develop

25.151 While we did not audit the overall management capacity of the Agency, we observed a number of areas where the organization is still developing and that have influenced the rate of progress on initiatives. The Agency is aware of these issues and is acting on most of them. For example:

- When it was created, the Agency had to integrate 157 information systems and improve the Year-2000 compliance of its systems. The integration of these systems into 17 Year-2000 compliant systems involved significant effort by the Agency. However, a number of mission critical systems are still not fully operational, including the Multi-Commodity Activities Program, the Laboratory Sample Tracking System and the Import Control System.
- The Agency still needs to develop a corporate strategy for risk management in order to be in compliance with the Treasury Board's policy. This strategy would help the Agency anticipate and cope with risks that affect the achievement of its mission.
- Because of the major reorganization in 1998, there was a loss of continuity in specific management positions, bringing challenges to maintaining corporate memory.
- An internal study identified little confidence in records management.
- The Agency does not routinely include financial analysis in its analysis of initiatives.

Conclusion

25.152 The Agency's food inspection programs are reviewed and generally well regarded by most foreign countries that import our products. This feedback provides a degree of assurance that the Agency's programs are contributing to the safety of the food supply.

25.153 The creation of the Agency and its first corporate business plan set expectations for improvements in food safety. The Agency has undertaken a number of initiatives to achieve its mandate of managing an efficient and effective food inspection system. We found that progress on these initiatives has been varied, and in some cases, has faltered. Our audit work identifies a number of areas where the Agency needs to address important issues to ensure that its programs are satisfactorily designed, structured, organized and implemented.

25.154 In our review of 21 inspection files, we identified many instances where compliance actions were inadequate to secure the timely correction of compliance problems because of limitations in legislation or insufficient action by inspectors. While conclusions on the compliance activities in general cannot be drawn from this sample, we are concerned that a number of the problems had remained uncorrected for many months and in some cases, years.

25.155 Measuring the success of initiatives, and more broadly, the performance of the Agency in achieving its goals is also a concern. The Agency has not set expectations and has only developed limited performance measures to determine whether its initiatives and activities have contributed to a more efficient and effective food inspection system. Our annual assessment of the performance information in the Agency's annual report has consistently noted that readers are not provided with the information necessary to understand the extent to which the Agency is achieving its objectives.

25.156 The Agency is lacking important information about hazards in the food supply and the impacts on humans to make management decisions. This is complicated by the fact that the Agency must rely on others for some of this information.

25.157 The Agency has missed opportunities for broad public debate on key strategic questions, including the following: How much inspection attention should be paid to the non-federally registered sector given its mandate? Should the Agency continue to provide industry with considerable flexibility in implementing the HACCP-based approach? Should it be leading internationally in implementing the further redesign of the HACCP-based approach in the meat industry? It is important that the Agency engage stakeholders, including Parliamentarians and the public, in a debate on these questions.

About the Audit

Objectives

The audit's objectives were the following:

- to assess whether the Agency's inspection regimes have been satisfactorily designed, structured, organized and implemented to achieve their safety and other objectives;
- to identify factors and constraints that affect the development or implementation of the inspection regimes; and
- to determine whether the Agency is proceeding adequately with initiatives to improve its management of risks to food safety relative to its mandate for food inspection.

Scope

Our audit assessed the regulatory regimes and food inspection programs that the Agency uses to discharge its responsibilities for safe food and consumer protection. We examined a number of its strategic initiatives for managing the risks to food safety:

- Integrated Inspection System
- risk-based resourcing
- imported commodities
- non-federally registered establishments
- implementation of the HACCP-based approach
- compliance and enforcement activities
- human resource management.

In addition, we also assessed three factors that we believe influence the success of these initiatives:

- information for management decisions and measuring performance
- risk communication framework
- corporate capacity.

Approach

We interviewed staff at the Agency's headquarters in Ottawa, in regional offices and on site at processing establishments. We spoke to management in a number of processing establishments. We obtained and reviewed documentation, including legislation, regulations, corporate documents, policies and procedures manuals, inspection files, minutes of meetings, planning documents, studies, audits and information from Web sites. We also interviewed the staff of provincial food inspection programs and at the United States Department of Agriculture and Food and Drug Administration.

To assess the adequacy and consistency of compliance activities, we reviewed the inspection files for 21 establishments (six non-federally registered establishments and 15 federally registered establishments). We chose at least one file from each of the Agency's four geographical areas (Atlantic, Quebec, Ontario, West). Nine involved prosecutions during the latter half of 1999, and 12 had issued recalls at some time between June 1998 and March 2000.

Criteria

We drew our audit criteria from the Agency's legislation and regulations, performance report, annual report and corporate business plan; expectations developed by the General Accounting Office in audits of the U.S. food safety system; work of the Canadian Food Inspection System Implementation Group; and prior and current work of our Office. The criteria were designed to examine issues identified in our Report, Chapter 24, Federal Health and Safety Regulatory Programs.

We expected that the Agency would have done the following:

- analyzed alternative regulatory regimes;
- developed clear policies and procedures for resolving complaints;
- set up effective departmental accountability and review structures that are consistent with its regulatory approach;
- prepared clear statements of guiding ethical principles and conflict-of-interest policies;
- developed clear policies for the establishment of cost-recovery fees;
- established clear, accurate, comprehensive and timely reporting to management and Parliament;
- identified and prioritized risks to food safety and incorporated these risks in its decision-making process; and
- designed and delivered food inspection programs to protect against risks to food safety.

More specific expectations are presented in each section of this chapter.

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Chapter 26

Health Canada

Regulatory Regime of Biologics

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 26-5

Introduction 26-7

A wide range of safety risks are associated with biologics 26-7
There are various approaches to regulating products 26-8
Health Canada is responsible for regulating biologics 26-9
Focus of the audit 26-10

Observations and Recommendations 26-10

Regulatory Frameworks and Approaches 26-10
Health Canada is taking a proactive approach to identifying risks 26-10
The current regulatory framework for biologics is largely based on a traditional approach to regulations 26-10
Health Canada is moving toward a standards-based regulatory approach for some biologics 26-11
Implementing traditional prescriptive regulations presents challenges 26-12
Early experiences in using and referencing standards in regulations for biologics 26-14

Evaluation and Ongoing Review 26-18
Many of the reviews point to problems observed during our audit 26-18

Organizational Realignment 26-19
A product life-cycle approach to managing biologics is being examined 26-19

Conclusion 26-19

About the Audit 26-21

Exhibits

26.1 Examples of Some Commonly Known Biologics 26-7
26.2 Responsibility for Biologics at Health Canada 26-9

Health Canada

Regulatory Regime of Biologics

Main Points

26.1 Our audit of Health Canada's regulatory regime for biologics found that the Department is taking a reasonable approach in developing and implementing frameworks and approaches for regulating different biologics (blood and blood products, cells, tissues and organs of human or animal origin, vaccines and other biological drugs). Our work focusses on the management of the regime for regulating biologics. Therefore, we did not conclude on the effectiveness of specific regulations or on the safety of specific products.

26.2 The Department faces important challenges. It needs to do the following:

- to establish more formal guidance to determine the most appropriate regulatory approach for a given situation;
- to maintain the currency of regulations;
- to obtain sufficiently qualified staff to deal with the rapid technological advances in biologics; and
- to implement sufficient databases to adequately process, analyze and disseminate information on adverse reactions and events.

26.3 Overall, we found that the Department has adopted a proactive approach to identifying risks that could threaten the health and safety of Canadians in the area of biologics. Though the science for xenotransplantation (the use of live, non-human animal cells, tissues and organs in humans) is not perfected, the Department is being proactive in planning a regulatory regime for xenografts. However, many delays have characterized the implementation of the regulatory regime for transplantation of human tissues and organs. Transplants of these types have been performed in hospitals for a number of years.

Background and other observations

26.4 Health Canada is responsible for regulating biologics under the provisions of the *Food and Drugs Act* and Regulations. Accordingly, the Department's objective is to ensure that biologics available to Canadians are safe, effective and of high quality. The Bureau of Biologics and Radiopharmaceuticals does much of this work with several other bureaus in the Therapeutic Products Directorate of the Health Products and Food Branch. As well, the Population and Public Health Branch conducts some surveillance activities.

26.5 The safety of biologics is an important aspect of public health. Rapid advances in science have resulted in increasing regulatory challenges. Many of the federal laws that govern health and safety were developed decades ago. Today, science is yielding new products that up until recently were unimaginable. Some products and practices carry potential health risks and raise difficult questions that current legislation may not be fully equipped to address. It is important that regulations remain current. It is also necessary to ensure that the tools required to put in place regulations — or other interventions — are also current and sufficiently flexible to deal with changing demands.

26.6 The Department follows a traditional approach with prescriptive regulations to regulate most biologics. This framework is well-established and offers some benefits. However, Health Canada believes that the framework is not sufficiently flexible to deal with emerging products and other technological advances in biologics. Therefore, the Department is moving toward adopting a standards-based regulatory approach for blood, tissues and organs, and xenografts. Under this approach, third-party standards development organizations develop standards with Health Canada and other interested parties.

26.7 The Processing and Distribution of Semen for Assisted Conception Regulations (the Semen Regulations) represented the only regulatory framework in biologics that incorporated by reference in the Regulations standards developed by a third party. While this approach appears to offer some benefits including more flexibility to deal with rapid changes in technology, there are some important issues that need to be addressed. The Department needs to ensure that compliance is verified and that accountability is assured for regulations referencing its own technical standards. The Department needs to apply lessons learned from the implementation of the Semen Regulations to future standards-based regulatory frameworks, as applicable.

Health Canada's responses to our recommendations are included in this chapter. The Department agrees with the recommendations and indicates the actions that it is taking or intends to take to address them.

Introduction

A wide range of safety risks are associated with biologics

26.8 In recent years there has been significant public interest in the safety of biologics, which include blood and blood products, cells, tissues and organs of human or animal origin as well as vaccines and other biological drugs. (Exhibit 26.1 presents examples of commonly known biologics.) This interest has been demonstrated by the 1993 report of the Royal Commission on New Reproductive Technologies, the 1997 final report of the Commission of Inquiry on the Blood System in Canada (Krever Commission) and the 1999 Report of the Standing Committee on Health on Organ and Tissue Donation and Transplantation.

26.9 Unlike pharmaceutical drugs that are manufactured from chemical sources, biologics are produced from biological or "living" material, that is, material from humans, animals or micro-organisms. In particular, there is a greater variance in the components of biological products than in those of chemically derived products. Hence, there is a wide range of safety risks associated with biologics. Some of the risks are known, such as risks associated with the transmission of infectious diseases, transfusion reactions and bacterial contamination. However, others are not as well understood or are emerging risks associated with the transmission of unknown infectious agents. Examples of the agents include animal viruses, new variant Creutzfeldt-Jakob disease and the transmission of malignant disease.

26.10 The impact that biologics have on Canadians is both highly individualized and far-reaching. There are some 350 biological drugs approved for sale in Canada, of which about one third are vaccines. A significant proportion of these products are considered to be leading-edge technology and of particular interest to persons who face life-threatening and seriously debilitating illnesses. This fact is evidenced by the proportionately higher percentage of priority reviews of biological drugs than of pharmaceutical drugs. In 1998, 1,564 kidney, liver, heart and lung transplants occurred, but there was a considerably higher demand for organ transplants. While the technology for transplants of tissues (such as cornea, skin and bone marrow) is increasing, statistics on their frequency are not readily available. Each year approximately 3,500 Canadian women obtain donated semen for assisted conception, and many thousands of Canadians receive blood and blood products. In 1999 Canadian Blood Services and HÉMA-QUÉBEC collected about 920,000 units of whole blood.

26.11 With the recent advances in science and reproductive technologies, it is expected that there will be a significant growth in new biological products and therapies, such as xenografts (the use of live, non-human animal cells, tissues and organs in humans), gene therapy and stem cell therapy. Xenotransplantation, while controversial, is expected to gain from significant technological advances as the demand for human organs far exceeds their supply. These rapid developments require a regulatory regime that is up-to-date and responsive to change.

There is a wide range of safety risks associated with biologics.

It is expected that there will be a significant growth in new biological products and therapies. These rapid developments require a regulatory regime that is up-to-date and responsive to change.

Exhibit 26.1

Examples of Some Commonly Known Biologics

- **Allergenic substances used for the treatment or diagnosis of allergic or immunological diseases**
- **Blood and blood derivatives**
- **Certain hormones and enzymes**
- **Insulin**
- **Semen**
- **Tissues: skin, eye cornea**
- **Organs: liver, heart, lungs**
- **Vaccines**

Source: Health Canada

Introduction

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- **Tissues: skin, eye cornea**
- **Organs: liver, heart, lungs**
- **Vaccines**

Source: Health Canada

There are various approaches to regulating products

26.12 There are various instruments, like public education, voluntary guidelines, standards and regulations, that the government can use to ensure the safety of products available to Canadians. The development and application of regulations have generally followed either the traditional prescriptive approach or the more recent standards-based approach. Many government regulatory regimes fall somewhere in between these approaches by encompassing characteristics of both. The government is accountable for all its regulations, regardless of how they are developed and how standards are incorporated or referenced in regulations.

26.13 Regulations developed using the traditional prescriptive approach generally contain detailed product and manufacturing standards, which are written into the regulations themselves. Under this approach, the government leads the development of the regulations by following a prescribed regulatory process, which includes the requirement for a regulatory impact analysis statement. While the government does not necessarily seek the agreement of interested parties, it does consult them.

26.14 In 1996 the Treasury Board Secretariat launched the Standards and Regulatory Reform Program and encouraged all government departments to participate in developing standards-based regulatory regimes, where appropriate. Under this approach, standards development organizations develop standards with interested parties by following an accredited process based on consensus. The government may take part in developing the standards, but it is only one of several stakeholders comprising relevant industry representatives, professional bodies, technical experts and other interested parties. Where consensus cannot be reached easily it can considerably lengthen the regulatory development process.

26.15 Once the standards are approved and published, regulatory authorities may reference or incorporate them in whole or in part in the regulations, making them mandatory by law. Where standards are incorporated in or written into the regulations, they generally take on the characteristics of the traditional prescriptive approach because subsequent amendments must go through the prescribed regulatory amendment process. Where standards are referenced in the regulations, the relevant sections of the third party's standards document are named in the regulations and usually accompanied by the ambulatory phrase "as amended from time to time." For those to whom the regulations apply, the regulatory authority needs to make the referenced material available to them. Any subsequent changes to the standards are made by the standards development organization and are not subject to the prescribed regulatory amendment process.

26.16 In either case the regulatory authority maintains ultimate accountability for ensuring that the regulations are up-to-date. Under the traditional prescriptive approach, the government regularly reviews its regulations to ensure their ongoing relevance and currency and changes them accordingly. Under the standards-based approach, the government relies on the standards development organization to periodically review and update the standards document. The government may take part in this review as an interested stakeholder, but it cannot unilaterally change the organization's document. However, the government can change its own regulations and, as such, may elect to change the regulations' reference to the standards document in the event an agreement cannot be reached on proposed changes. Yet this alternative could also considerably lengthen the process.

26.17 Under both approaches, the regulatory authority often supplements regulations with policies, guidelines and operating procedures according to which manufacturers must meet certain requirements and submit to periodic inspections to ensure compliance. In addition, regardless of the adopted approach, the government is accountable for implementing the regulatory regime and establishing adequate compliance and enforcement systems.

26.18 Standards-based regulatory regimes are intended to provide greater flexibility than traditional prescriptive regimes when changes to the regulations are required quickly. Regulatory authorities have noted that traditionally, it can take up to two years to amend regulations according to established rules — by this time it can be too late to capture even further technological changes that have occurred. Standards-based regimes, which reference a third-party's standards document, are believed to be a quicker means for making amendments, provided that consensus can be reached in responding to new knowledge or technological advances. Proponents of standards-based regimes believe that they result in the following:

- the use of clearer and simpler language;
- more acceptance and greater compliance due to reduced need for education and enforcement because the standards are usually derived from consensus of all interested parties; and
- the harmonization of national standards with international standards.

Health Canada is responsible for regulating biologics

26.19 Under the provisions of the *Food and Drugs Act* and Regulations, Health Canada is responsible for regulating biologics. Accordingly, the Department's objective is to ensure that biologics available to the people of Canada are safe, effective and of high quality. The Bureau of Biologics and Radiopharmaceuticals, which carries out much of this work, is one of several bureaus in the Therapeutic Products Directorate of the Health Products and Food Branch. For 1999-2000, the Department estimates that it allocated to biologics $16.1 million and 157 full-time employees of the Therapeutic Products Programme. Additional resources were budgeted elsewhere in the Department, primarily for surveillance activities of vaccines and the Blood Safety Program.

Under the provisions of the *Food and Drugs Act* and Regulations, Health Canada is responsible for regulating biologics.

26.20 Other bureaus in the Directorate and other branches of the Department also share responsibility for biologics (see Exhibit 26.2). The Bureau of Compliance and Enforcement, whose activities play a role in regulating biological drugs, including vaccines, blood and semen, is building its technical expertise for organs,

Exhibit 26.2

Responsibility for Biologics at Health Canada

Health Products and Food Branch	Population and Public Health Branch
Therapeutic Products Directorate	**Centre for Infectious Disease Prevention and Control**
• Bureau of Biologics and Radiopharmaceuticals • Bureau of Compliance and Enforcement • Bureau of Policy and Coordination • Bureau of Licensed Product Assessments • Medical Devices Bureau	• Bureau of Infectious Diseases Blood-Borne Pathogens Division Immunization Division

Source: Health Canada

other tissues and xenografts. The Bureau of Policy and Coordination leads the development of policies, regulations and legislation and supports the various expert working groups. The Bureau of Licensed Product Assessments monitors reports of adverse drug reactions to licensed drug products, except immunization vaccines, which are the responsibility of the Division of Immunization in the Centre for Infectious Disease Prevention and Control, Population and Public Health Branch. The Division of Blood-Borne Pathogens conducts some surveillance, particularly of diseases that may be transmitted by blood. The Medical Devices Bureau tests and approves serological test kits used for the screening and diagnosis of infectious diseases.

Focus of the audit

26.21 We set out to determine how well Health Canada's regulatory regime is working in the regulation of biologics.

26.22 We present details on our audit's objective, scope, approach and criteria at the end of this chapter in **About the Audit**.

Observations and Recommendations

Regulatory Frameworks and Approaches

Health Canada is taking a proactive approach to identifying risks

26.23 Health Canada regulates biologics under the *Food and Drugs Act.* The purpose of the Act is to protect the health and safety of Canadians and enable the federal government to make regulations for carrying out the provisions of the Act. Given this mandate, we expected that Health Canada would adopt a proactive approach to identifying risks of biologics that could threaten the health and safety of Canadians.

Overall, we found that Health Canada has adopted a proactive approach to identifying risks that could threaten the health and safety of Canadians in the area of biologics.

26.24 In identifying risks, the Bureau of Biologics and Radiopharmaceuticals works closely with other bureaus, branches and organizations in Canada and abroad. As well, the Department maintains several expert advisory committees in this area. For example, the Expert Advisory Committee on Blood Regulation provides medical, scientific, ethical and communications advice on current and emerging issues concerning blood. There are also expert advisory committees on xenograft regulation and HIV therapies. In addition, the Department uses internal working groups such as the Steering Committee on Blood, Tissues, Organs and Xenotransplantation (BTOX), which acts as an advisory body, and the BTOX Policy Development Team, which is developing a risk management framework for blood, tissues and organs, and xenografts.

26.25 An example of the Department's proactive approach to identifying risks is the recent policy on variant Creutzfeldt-Jakob disease and the donation of blood and blood products by donors who have visited countries that present a higher risk of exposure to the disease. Health Canada took this strictly precautionary measure to reduce the theoretical risks of transmitting variant Creutzfeldt-Jakob disease (which is linked to mad cow disease) through the blood supply. The Department will continue to monitor the implementation of the policy and update it as the science around this disease develops.

26.26 Overall, we found that the Department has adopted a proactive approach to identifying risks that could threaten the health and safety of Canadians in the area of biologics.

The current regulatory framework for biologics is largely based on a traditional approach to regulations

26.27 The current regulatory framework for biologics is largely based on a traditional approach for developing and maintaining regulations. Biological drugs, including vaccines, blood and blood products are subject to prescriptive regulations detailed in the *Food and Drugs Act* and several divisions of the Food and Drug Regulations. For years, as has been done in other countries, Health Canada has followed a traditional approach for regulating biological drugs and vaccines. This approach is well established and offers some benefits, particularly for products that require good manufacturing practices, on-site inspection and licence monitoring to ensure the safety and effectiveness of the products. However, the Department acknowledges that the Act and the Regulations have not kept pace with major advances in molecular biology and manufacturing technology. As such, the Department believes that this approach is not sufficiently flexible to deal with emerging products, such as xenografts, and other technological advances that characterize biologics.

26.28 Until recently, the Processing and Distribution of Semen for Assisted Conception Regulations (the Semen Regulations) represented the only regulatory framework in biologics that incorporated by reference in the Regulations standards developed by a third party. However, similar frameworks are planned for tissues and organs, xenografts, and blood and blood components, excluding fractionated blood products.

Health Canada is moving toward a standards-based regulatory approach for some biologics

26.29 The Semen Regulations were introduced in response to a recommendation of the 1993 Royal Commission on New Reproductive Technologies. In June 1996 they sought to establish minimum national standards that would decrease the risk of infectious disease transmission through semen when used in assisted conception. The Regulations made reference to specific sections of the Guidelines for Therapeutic Donor Insemination that had been developed and published by the Canadian Fertility and Andrology Society in 1988 and later revised in 1992. In effect, these guidelines (to the extent they were specifically referenced) were regarded as standards that had to be followed. The guidelines were largely voluntary until 1996.

26.30 In 1996 and 1997 the Department decided to develop similar frameworks for tissues and organs, xenografts, and blood and blood components (excluding fractionated blood products). The blood framework would contain compatible standards for hospital blood banks. Under this model, national standards of recognized standards development organizations would be referenced either in whole or in part in the Food and Drug Regulations. Requirements for registration or licencing of service providers, adverse event and activity reporting and compliance enforcement would be the subject of stakeholder consultations. These frameworks are expected to be in place by 2001-02 or earlier.

26.31 In recent years Health Canada has consciously moved toward adopting standards-based regulatory frameworks that reference the standards of standards development organizations for some biologics. The Department believes that these frameworks will give it greater flexibility to respond and adapt to rapid advances in technology and to the diverse nature and risks of biologics. However, the Department has concerns that the standards-based approach will not always keep pace with the expected rate of technological change. Only the standards development organizations can change their standards. For this reason, Health Canada may be unable to influence changes in the standards that it feels are necessary because divergent views may make consensus difficult — a basic principle of the model. This limitation could significantly lengthen the process because the Department would have to initiate regulatory amendments if it decides that the changes are critical. As a result, Health Canada is considering the option of referencing internally its own technical standards, which it could change as necessary.

Health Canada has recognized that a variety of frameworks and approaches are necessary to deal with the wide spectrum of risks associated with biologics.

26.32 Depending on the nature and risks of a product and what is currently known about it, Health Canada can follow various approaches for regulating biologics. Different approaches have benefits and limitations. Because scientific knowledge is rarely complete, the Department must take into account the best available knowledge and weigh it against the possible outcomes when choosing an approach. Health Canada has recognized that a variety of frameworks and approaches are necessary to deal with the wide spectrum of risks associated with biologics. However, the Department has not developed criteria and guidelines to help its officials decide on what approach to adopt.

26.33 Health Canada should develop clear criteria to assist its officials in determining which regulatory approach is the most appropriate for a given situation.

Department's response: *Agree. In addition to the existing Treasury Board guidance concerning regulatory tools, a Legislative Instruments project has been undertaken to address the challenges presented by the unique situations relative to biologics.*

Implementing traditional prescriptive regulations presents challenges

We found that Health Canada has had difficulty managing the workload of pre-market reviews of new biological products and conducting post-market assessments of products.

26.34 Under their prescriptive regulations, biological drugs, including vaccines are subject to detailed pre-market reviews, including laboratory testing before their approval for sale in Canada. For all of these products, Health Canada validates manufacturing methods and conducts pre-approval inspections of facilities in Canada and abroad and inspections of the manufacturing processes and facilities in Canada following approval. These two types of inspection are designed to ensure that the manufacturer (or blood collection facility) and the products comply with detailed regulatory requirements, including good manufacturing practices. Where applicable following market authorization, the Department also tests the products and authorizes their release lot by lot to ensure their safety and efficacy.

26.35 This regulatory framework requires a complement of sufficiently trained staff and surveillance systems. We found that the Department has had difficulty managing the workload of pre-market reviews of new biological products and conducting post-market assessments of products. Because of these difficulties, there is a significant backlog of new biological drug submissions, established performance targets are often missed and post-market assessments are incomplete. These problems are expected to worsen with the implementation of proposed changes to the regulatory framework that will decrease the present 60-day default period for approval to only 30 days for many clinical trial submissions. The Department received the authority to increase staff to meet the demands of this shorter approval time. However, management has low expectations for finding qualified resources in the immediate future. It is estimated that this shorter default period will further increase the backlog of submissions for new biological drugs.

26.36 Adequacy of human resources. In November 1997 the Krever Commission recommended that the Bureau of Biologics and Radiopharmaceuticals be given sufficient resources to carry out its functions properly. In 1998 the government announced a new investment of $125 million over the next five years to strengthen Health Canada's blood safety program, including regulatory and surveillance programs for related biologics. The Department also received permission to hire 84 full-time employees beginning in 1998–99 and up to a total of 133 by 2000–01.

26.37 According to an internal report, the Department had not filled by August 2000 30 of 94 positions allocated to the Therapeutic Products Programme for 1999–2000. Vacant positions were identified as "staffing in progress" or "staffing to be initiated" and pertained to compliance and enforcement investigations, pre-market and post-market reviews, post-market surveillance, regulatory research and policy development. The report attributed these shortfalls mostly to a lengthy staffing process and the unavailability of qualified candidates. Our interviews with departmental managers revealed additional reasons for being unable to staff these positions. These reasons include non-competitive salaries, management's inaction to initiate staffing due to a lack of time to hire and train new recruits and potential candidates' unwillingness to work in biologics in a post-Krever environment.

26.38 Post-market surveillance and ongoing risk assessments. Post-market surveillance allows for reporting to the Department of unforeseen adverse reactions and events. (These reactions and events are undesirable side effects experienced by patients, but not foreseen at the time the product was approved.) It also provides information to undertake ongoing risk assessments. To protect the health of Canadians, we would expect the Department to know quickly if any approved product has unexpected adverse effects. We would also expect the Department to systematically assess the risk and effectiveness of approved biological products.

26.39 While the established regulatory regime for biologics provides for post-market surveillance and ongoing risk assessments, we found a number of problems in these activities. There was little post-market surveillance of biological drugs supported by comprehensive data. The Bureau of Biologics and Radiopharmaceuticals often did not review and assess adverse reaction reports for products under clinical trials in a timely manner. Further, the Bureau of Licensed Product Assessments does not have a database to adequately process, analyze and disseminate information on adverse reactions and events for biologics. In addition, we have learned that the Department does not review adverse reaction reports from industry in other countries; it stores them in boxes. The Department attributes these problems largely to a lack of qualified candidates for vacant positions.

Health Canada had not filled by August 2000 30 of 94 positions allocated to the Therapeutic Products Programme for 1999–2000.

26.40 We also found a weakness in the reporting requirements for post-market surveillance. Even if the Department could adequately process and disseminate post-market assessments, its ability to assess risks is limited given that health practitioners' reporting of post-market events is voluntary. We recognize that Health Canada has no authority to compel physicians to report these events and that non-reporting is largely beyond its control because authority for medical practitioners rests with the provinces. However, the result of this weakness has been a long-standing concern for inadequate reporting. As such, the Department plans to more proactively obtain this information by contracting targeted studies as part of its strategy to strengthen its post-approval assessment activities.

We found a number of problems in Health Canada's post-market surveillance activities.

26.41 Health Canada should take measures to ensure authorized positions are staffed.

Department's response: *Agree. Management recently approved a special Human Resources Initiative to accelerate recruitment. The project will focus internally on the retention of the highly qualified staff needed to deliver the program and externally on attracting and* *recruiting highly specialized staff to fill the numerous vacancies in a timely fashion.*

26.42 Health Canada should implement sufficient databases to adequately process, analyze and disseminate information on adverse reactions and events for biologics.

Department's response: *Agree. A partnership arrangement is being developed with the U.S. Food and Drug Administration for a combined database which will contain both U.S. and Canadian adverse event reports. Canadians will be better served by having access to a much larger database with information on rare, but critical, adverse reactions.*

Health Canada did not inspect or monitor the compliance of semen banks from the implementation of the Semen Regulations in June 1996 to March 1999.

Early experiences in using and referencing standards in regulations for biologics

Health Canada's experience demonstrates that standards-based regimes can present challenges for the regulatory authority.

26.43 The subsequent standards-based models planned for blood and blood components (excluding fractionated products), tissues and organs, and xenografts are different in some ways from the semen model. Yet the approaches and issues are sufficiently similar to gain valuable lessons that can be applied more broadly. We have noted the intended benefits of standards-based regulatory approaches over traditional regulatory approaches. These benefits include greater flexibility in changing regulations to ensure currency. Greater compliance is also expected because the regulations would be largely derived from consensus of all the interested parties. However, Health Canada's experience with the implementation of the Semen Regulations demonstrates that standards-based regimes can also present challenges for the regulatory authority. Some of these challenges, such as the lack of compliance verification, can be problematic, irrespective of the regulatory approach. Other challenges, such as the need to maintain transparency and flexibility when using third-party organizations, are specific to standards-based regimes.

26.44 Lack of compliance verification. Health Canada did not inspect or monitor the compliance of semen banks from the implementation of the Semen Regulations in June 1996 to March 1999. Although an accreditation process and inspection regime were intended to be part of the regulatory framework developed in 1996, these activities did not occur. Nor were there any plans established before 1999 for the inspection of semen processing facilities and standard operating procedures for inspection did not exist.

26.45 Reasons for not inspecting these facilities before March 1999 are unclear. Our interviews with Health Canada officials revealed various opinions on this inaction; however, we found no documented risk analysis to support it. The officials informed us that resources and attention were focussed on blood — the priority at the time. The risk of infectious disease transmission through semen was perceived to be low relative to blood. As well, the transmission of disease was considered unlikely because there had been no reported cases of sexually transmitted diseases through semen using assisted conception since the Regulations came into force in 1996. Adding to the lack of attention were the departure of key personnel and organizational changes, which affected the overall inspection strategy of the Department shortly after the introduction of the Regulations.

26.46 In March 1999 problems identified by an Ontario semen bank initiated that following summer a national investigative inspection by Health Canada of all known semen establishments. The Department found that 43 of the 51 establishments under investigation did not comply fully with the Regulations. Of these 43, 17 did not perform the required tests for specific infectious diseases, and more than half did not maintain sufficient records for Health Canada to determine that they had done the required tests. As a result, the Department detained much of the semen supply for assisted conception in Canada, which created considerable anxiety among recipients.

26.47 Overall, we observed that the Department's semen investigation was comprehensive and it took action to mitigate risks. In April 1999 the Bureau of Compliance and Enforcement established an inspection program for all known semen establishments. The Bureau of Biologics and Radiopharmaceuticals performed health hazard evaluations to determine the extent of risk to public safety where non-compliance was observed. Shortly thereafter, the Bureau of Compliance and Enforcement began to formulate and test standard operating procedures for investigative inspections of semen establishments. In addition, the Department trained compliance officers to give them the knowledge and skills for inspecting these establishments.

26.48 The 1996 guidelines referenced in the Semen Regulations did not provide needed flexibility. These guidelines were developed by the Canadian Fertility and Andrology Society, a not-for-profit corporation. The members of the Society are volunteer practitioners and scientists involved in reproductive medicine and fertility research. Because the Society is not a national standards development organization, there was no specific responsibility for it to follow established procedures for reviewing and updating the guidelines. Health Canada also did not assume this responsibility, and no effort was made to periodically review and update the guidelines until 1999.

26.49 The guidelines were very specific about what tests were to be used for donors and semen to detect infectious diseases and when they were to be used. The semen investigation by Health Canada revealed significant technological advances in equivalent and sometimes more sensitive tests, which some banks were applying. The guidelines were inflexible because they did not allow for any tests other than those that were specified. Six of the investigated semen establishments had their semen supply detained because of non-compliance with the Regulations' mandated tests. Ironically, the one case of sexually transmitted disease, which was identified in the investigation, does not appear to have been the result of non-compliance with the guidelines. The semen establishment had done the test mandated by the guidelines. However, this test has since been proven to be less effective in detecting the disease than the newly developed test. While this case is still under investigation, the current guidelines have been updated to include the newly developed and more sensitive test.

Later in 1999 Health Canada found that 43 of the 51 establishments under investigation did not fully comply with the Semen Regulations.

26.50 The guidelines were revised by the Canadian Fertility and Andrology Society in consultation with Health Canada following the semen investigation. Introduced in March 2000, they too were acknowledged by departmental officials as being very prescriptive and not allowing for alternate tests. Recently, however, Health Canada changed the Semen Regulations to authorize alternate tests, which it must approve, in order to achieve the flexibility that standards-based regulatory frameworks are intended to provide.

26.51 Efforts to maintain transparency and flexibility. The introduction of standards-based regulatory frameworks has presented a new element about which regulatory authorities need to be concerned. The involvement of the standards development organizations in the frameworks means that the organizations could be susceptible to litigation if something goes wrong. The Semen Regulations until recently made specific reference to guidelines of the Canadian Fertility and Andrology Society. The Society stated that its March 2000 guidelines would be withdrawn on 1 August 2000. Departmental officials

The involvement of standards development organizations in standards-based frameworks means that the organizations could be susceptible to litigation if something goes wrong.

informed us that the Society had concerns about legal liability. The withdrawal of the guidelines would have created a void in the regulatory framework for donor screening and semen testing for infectious disease agents as of that date. However, Health Canada incorporated on 27 July 2000 specific sections of the guidelines into a departmental directive, which is now referenced in the Regulations.

26.52 The Department faced two challenges in referencing standards contained within its own directive. It had to ensure transparency of decision making when amending the guidelines in the directive. At the same time, it needed to maintain flexibility for making changes quickly to keep pace with technological advances.

There have been numerous delays in establishing national safety standards for the transplantation of human tissues and organs.

26.53 Federal regulatory policy requires that the regulatory authority ensure public scrutiny when changing the regulations as part of the prescribed process. By doing so, the authority ensures the transparency of decision making and ultimately accountability. Accredited standards development organizations must consult stakeholders and obtain a consensus before it can change its standards. The organizations, by their independence, ensure that the authority does not have a mechanism to circumvent public scrutiny of the regulatory process, which helps to ensure public accountability. If a department references its own internal directive in the regulations, it creates a process that does not require public consultation when it changes the directive.

26.54 Health Canada wanted to ensure that the public could provide input on future changes to the standards for semen for assisted conception, which are in the internal directive. Therefore, the Department used a static reference (i.e., changes cannot be made without going through the prescribed regulatory process) to allow the public to do so. This decision was in lieu of the ambulatory reference, which allows for amendments from time to time. However, the Semen Regulations have now lost the primary advantage of the standards-based approach, i.e., providing the flexibility to make changes quickly in order to keep pace with technological advances. Health Canada intends to address this problem in the new regulatory framework for tissues and organs, including reproductive tissues, which is under development.

26.55 As part of the regulatory framework for tissues and organs, the Department is developing standards for tissues and organs that are separate from standards for semen for assisted conception. As was the case with semen, the standards development organization involved in the regulatory framework for tissues and organs was also concerned that it might be susceptible to future litigation. This organization requested legal indemnity beyond an amount which it could bear in the event of legal action over the standards. The federal government agreed to indemnify the organization by accepting to pay any possible claims that court decisions would impose beyond this amount. Once the contract has been finalized, it is expected that the standards development organization will continue to maintain the standards for tissues and organs and maintain transparency and flexibility of the proposed regulatory framework.

26.56 **Delays in the development of a regulatory framework for tissues and organs.** Like several other countries, Canada is developing a regulatory framework for tissues and organs. However, it has been doing so for a number of years, and there have been numerous delays in establishing national safety standards. In October 1995 Health Canada hosted the National Consensus Conference on the Safety of Organs and Tissues Used in Transplantation. Following the conference, a working group of transplant practitioners drafted a Canadian general standard for the safety of organs and tissues used in transplantation.

26.57 In its April 1999 report, the Standing Committee on Health saw a clear role for the federal government in developing regulatory standards for the safety and quality of organs and tissues, similar to those for blood and semen. It also noted that formalizing the Canadian general standard for the safety of organs and tissues used in transplantation had taken several years. There have been frequent calls for strong national safety standards. For this reason, the committee recommended that the Minister of Health have the standard and its subsets approved and made mandatory as soon as possible, preferably within six months, through incorporation by reference into regulations under the *Food and Drugs Act*. The Department expects to complete a regulatory framework for tissues and organs in 2001–02.

Health Canada is proactive in planning a regulatory framework for xenografts.

26.58 Health Canada is proactive in planning a regulatory framework for xenografts. Organ and tissue transplants have been taking place in hospitals for a number of years. Xenotransplantation, though not scientifically perfected, is rapidly evolving, and some investigational studies have been proposed. However, it is generally accepted that the potential benefits of this medical technology do not come without risks to the transplant recipient and the general public.

26.59 In 1997 Health Canada sponsored a national forum on xenotransplantation. The forum recommended that the Department develop a standards-based regulatory approach for xenografts. It also identified other issues such as patient ethics that need to be addressed.

26.60 In its April 1999 report, the Standing Committee on Health recommended that Health Canada be proactive in informing and consulting the public on xenotransplantation. Further, the Department would need to ensure that clinical trials for xenografts not be approved until the proposed xenotransplantation standards are enforceable.

26.61 Currently, there are no clinical trials of xenotransplantation that have been approved in Canada. We noted earlier the mandate of the Expert Advisory Committee on Xenograft Regulations. In September 1999 Health Canada published a proposed standard for xenotransplantation as an eventual criterion for clinical trials and regulations for xenotransplantation in Canada. The Department expects to complete a regulatory framework for xenografts following public consultations in 2001.

Based on its use of referenced standards in the Semen Regulations, Health Canada is studying lessons learned from implementing standards-based regulatory frameworks.

26.62 Lessons learned from implementing standards-based regulatory frameworks. Based on its use of referenced standards in the Semen Regulations, the Department is studying lessons learned from implementing standards-based regulatory frameworks. The objective of the study is twofold: to assess the outcome of the Therapeutic Products Programme's experience with incorporating referenced standards into regulations; and to identify positive and negative after-effects, areas for improvement and issues on the use of such frameworks for other biologics. At the time of our audit, the Department had not completed the study or presented it to senior management for review.

26.63 In our opinion, this study is an important undertaking by the Department. We are encouraged that it reflects many of our observations on the implementation of the Semen Regulations. In particular, the study reveals the need that standards be relevant and flexible in order to keep pace with technological advances, that compliance be verified and that accountability be assured for regulations referencing technical standards of the Department. Resolving these issues now is especially important given Health Canada's plans to implement standards-based regulatory frameworks for blood and blood components (excluding fractionated products), tissues and organs, and xenografts.

26.64 Health Canada should complete its case study pertaining to the lessons learned in using standards-based regulatory frameworks, which draws upon the experience of implementing the Semen Regulations.

Department's response: *Agree. The case study pertaining to the lessons learned is being finalized, prior to presentation to senior management for review, but the principles of lessons learned are already being applied.*

26.65 Lessons learned from implementing the Semen Regulations should be applied to future standards-based regulatory regimes, as appropriate.

Department's response: *Agree. The case study of lessons learned from implementing the Semen Regulations, along with the policy paper from the Legislative Instruments project will be integral to the application of future standards-based regulatory regimes, as applicable.*

Evaluation and Ongoing Review

Many of the reviews point to problems observed during our audit

26.66 We expected Health Canada to undertake periodic evaluations or other reviews that measure program effectiveness and to report their results. We also expected the Department to have in place a system that continuously measures performance and to report on its performance.

26.67 As in any regulatory program, the regulatory authority is primarily responsible for ensuring the effectiveness of its regulations and established standards. Irrespective of the regulatory approach it adopts, the authority's periodic evaluations (or other reviews) and ongoing performance measurement are essential to assess the effectiveness of the regulations and the approach. These functions are especially important given the impact of biologics on the health and safety of Canadians; the rapidly changing environment that characterizes biologics; and the Department's move to adopt standards-based regimes for other biologics.

In recent years there have been several reviews and evaluations applicable to biologics. They identified needed improvements that affect biologics. Our audit has raised many of the same concerns.

26.68 In recent years there have been several reviews and evaluations applicable to biologics, including the 1997 final report of the Krever Commission of Inquiry on the Blood System in Canada, various reviews of the drug approval process, and the evaluation of the cost recovery initiative completed this year. Although some of these reviews and evaluations were not specific to the regulation of biologics, they, nonetheless, identified needed improvements that affect biologics.

26.69 Among other things, the Krever Commission made recommendations to strengthen the regulation of biologics, including the need for adequate resources. Other reviews also identified concerns about allocating adequate resources, not meeting performance targets, and making decisions open and transparent. Our audit has raised many of the same concerns.

26.70 The Department monitors its performance against the Krever Commission's recommendations that apply directly to Health Canada's sphere of operations. The Web site of the National Blood Safety Council contains information on the status of Health Canada's and others' implementation of the Commission's recommendations. There are performance reports on quarterly and annual biological drug review submissions, which list established targets for approving these submissions. The Department measures its performance against these targets. However, we did not find performance targets for monitoring other activities, such as the completeness and timeliness of adverse reaction and event reporting.

26.71 The Department is developing an evaluation framework for its blood safety program. However, its most recent evaluation plan does not cover other biologics. The Department also intends to conduct an expert review of all activities related to blood regulation and surveillance by November 2002. This review is in response to the Krever Commission's recommendation that the Bureau of Biologics and Radiopharmaceuticals be audited every five years.

26.72 We encourage the Department to continue these activities given the importance of biologics and the safety considerations that we discuss in this chapter.

Organizational Realignment

A product life-cycle approach to managing biologics is being examined

26.73 In April 2000 Health Canada announced a realignment of its activities, partly to strengthen its health protection capabilities. Among other things, it has proposed the creation of a new directorate of biologics and genetics.

26.74 The management of biologics depends greatly on specialized expertise. The components of each biological product have varying characteristics that require specialized safety considerations. The Department is examining an approach to managing biologics based on products' life cycle. The approach would build product knowledge continuity, from the time a biological product is presented for pre-market review to the time it is taken off the market. To achieve this approach, one consideration is to gather Health Canada's experts in biologics and use the same team of pre- and post-market reviewers to monitor adverse reaction reports.

26.75 The Department's discussions on organizational realignment will address the issues identified in our audit and other reviews, including the following:

- staffing key positions that are still vacant;
- implementing sufficient databases to adequately process, analyze and disseminate adverse reactions and events;
- verifying compliance with regulations;
- ensuring the periodic review and update of referenced standards; and
- addressing the issue on referencing in regulations the Department's own technical standards.

26.76 Accordingly, the Department plans to adopt next year a cautious and measured approach to establishing a new organizational structure for regulating biologics.

Conclusion

26.77 Health Canada is taking a reasonable approach in developing and implementing frameworks and approaches for regulating different biological products. However, the Department faces some important challenges. It needs to establish more formal guidance to determine which regulatory approach is most appropriate for a given situation. It also needs to maintain the currency of regulations and have sufficient qualified staff to deal with the rapid technological advances in biologics.

26.78 Health Canada has adopted new regulatory approaches so that it has greater flexibility to meet these challenges. However, the Department is concerned that even these new approaches may not be able to keep pace with the expected rate of technological change.

26.79 The Department follows a traditional approach with prescriptive regulations to regulate most biologics.

This framework is well-established and offers some benefits. However, Health Canada believes it is not sufficiently flexible to deal with emerging products and other technological advances in biologics.

26.80 The Department is moving toward a standards-based regulatory approach for some biologics. However, this approach also has its unique challenges. The Department needs to ensure that the standards on which its regulations are based are up-to-date and provide the needed flexibility to respond to new knowledge or technological advances. In addition, Health Canada needs to address the accountability issues that have emerged as a result of standards writing organizations' concerns for legal liability. Overall, it needs to apply the lessons learned from implementing the Semen Regulations in the development of standards-based regulatory frameworks planned for other biologics.

26.81 The government is accountable for all of its regulations, regardless of how they are developed and how standards are incorporated or referenced in regulations. The government is also accountable for implementing the regulatory regime and establishing adequate compliance and enforcement systems. As well, continuous review and evaluation by Health Canada are essential to assess the effectiveness of its regulations and approaches used.

26.82 Rapid advances in science have resulted in increasing regulatory challenges. Many of the federal laws that govern health and safety were developed decades ago. Today, science is yielding new products that up until recently were unimaginable. Some products and practices carry potential health risks and raise difficult questions that current legislation may not be fully equipped to address. This trend is expected to continue at an increased pace.

26.83 It is important that regulations remain current. It is also necessary to ensure that the tools required to put in place regulations — or other interventions — are also current and sufficiently flexible to deal with changing demands.

About the Audit

Objective

We set out to determine how well Health Canada's regulatory regime is working in the regulation of biologics.

Scope and Approach

We examined Health Canada's framework and approach for regulating biologics. We looked at its process for deciding where regulations or standards are required for certain biologics. We also looked at the various frameworks and processes for providing the Department with information on the effectiveness of adopted regulations and approaches. We focussed on the management of the regime for regulating biologics. Therefore, we did not conclude on the effectiveness of specific regulations or on the safety of specific products.

Criteria

Regulatory programs are to be designed, organized and implemented based on the following:

- a proactive anticipatory approach, where appropriate;
- a comprehensive analysis and assessment of the nature and magnitude of risks;
- a comprehensive analysis of alternative regulatory approaches and tools to address identified risks;
- a clear understanding of the respective roles and responsibilities of different levels of government, industry and other parties to facilitate collaboration and enforcement in protecting public health and safety;
- prescribed standards, where appropriate and applicable;
- up-to-date legislation and regulations, where required;
- timely, efficient and effective implementation of regulatory action, including, where appropriate, conformity and compliance with prescribed standards, compliance with activity reporting and adverse events reporting, and inspections and responses to incidents of non-compliance or serious adverse events;
- a sound national database, where appropriate; and
- continuous review and appropriate accountability structures, including procedures to measure the effectiveness of regulatory program activities and to report results.

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Chapter 27

Canadian Nuclear Safety Commission

Power Reactor Regulation

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 27-5

Introduction 27-7

Focus of the audit 27-8

Observations and Recommendations 27-9

Risk Analysis and Performance Assessment 27-9

A need to improve risk analysis and assessment of licensee performance 27-9

Compliance and Enforcement Framework 27-11

Development of the compliance and enforcement framework has not been completed 27-11

Human Resource Management 27-12

Human resource capacity is critical to success 27-12

Recruitment and staffing strategies needed 27-13

Succession planning is a priority 27-14

Roles and accountabilities need to be clarified 27-14

Conclusion 27-15

About the Audit 27-16

Exhibits

27.1 Nuclear Power Stations Regulated by the Canadian Nuclear Safety Commission 27-8

27.2 How a Canadian Power Reactor Works 27-9

Canadian Nuclear Safety Commission

Power Reactor Regulation

Main Points

27.1 The Canadian Nuclear Safety Commission (CNSC) needs to improve its regulatory regime for power reactors to ensure that it continues to protect the health and safety of Canadians.

27.2 While the CNSC continuously monitors the compliance of power reactor licensees with regulatory requirements, its regulatory activities are not based on a rigorous, well-documented system of risk analysis and the ratings it assigns for regulatory performance (acceptable, conditionally acceptable or unacceptable) are not clear. In addition, CNSC's compliance and enforcement system is not yet complete. As a result, it cannot adequately demonstrate that it is achieving its safety objectives for the regulation of power reactors.

27.3 Like other nuclear regulators, CNSC faces significant difficulties in recruiting and retaining qualified staff. Combined with its current regulatory regime, which relies heavily on the expertise and judgment of staff, the lack of human resource capacity could impact its ability to function adequately in the future.

Background and other observations

27.4 The *Nuclear Safety and Control Act* came into force on 31 May 2000. It created the Canadian Nuclear Safety Commission to replace the Atomic Energy Control Board. CNSC is responsible for regulating the use of nuclear energy in Canada to protect health, safety, security and the environment. Our audit focussed on the regulatory activities related to power reactor licensing and regulation.

27.5 The CNSC has 440 staff. Its headquarters are in Ottawa. It maintains a site project office at each of the power reactor stations, where its staff monitor licensee compliance with regulations and the licence conditions. In fiscal year 2000, CNSC had total costs of $59 million.

27.6 In July 1999, of some 440 power reactors in the world, 22 were in Canada — 20 in Ontario, one in Quebec and one in New Brunswick. There were 104 power reactors in the United States.

The Canadian Nuclear Safety Commission agrees with our recommendations and is taking action to address them.

Introduction

27.7 The *Nuclear Safety and Control Act* was passed in 1997 and came into force on 31 May 2000. It created the Canadian Nuclear Safety Commission (CNSC) to replace the Atomic Energy Control Board (AECB). For ease of reference, we use only CNSC throughout the chapter, but any such reference in connection with events prior to 31 May 2000 implies the former AECB. Under the Act, the CNSC, like its predecessor, regulates the use of nuclear energy in Canada to protect health, safety, security and the environment. Its regulatory regime includes setting requirements for licensees to follow, assessing and evaluating licence applications, seeking compliance with its requirements, and taking enforcement action when necessary. The balance of emphasis among these activities and on the use of regulations, licences, or policies and standards to capture requirements varies with the risks involved, the nature of the business regulated, the CNSC's experience with its licensees, and international experience. This chapter discusses its licensing and regulation of power reactors. Exhibit 27.1 lists the nuclear power stations regulated by the Canadian Nuclear Safety Commission. In July 1999, of some 440 power reactors in the world, 22 were licensees of the CNSC — 20 in Ontario, one in Quebec and one in New Brunswick. There were 104 power reactors in the United States.

27.8 CNSC's regulatory program is based on the licence holder's having prime responsibility for the safety of the nuclear power station. The licensee must demonstrate to the CNSC that the nuclear power station can and will be operated safely throughout the licensing period. Consistent with this principle, the CNSC has produced general performance standards for nuclear power stations, in addition to the specific standards codified in the regulations and referenced in the licence. The licensee is responsible for translating the general standards into a detailed proposal that, once accepted by the CNSC, forms part of the licensing basis for the station. It also serves as the basis for future regulatory activities, such as approving changes and conducting audits and inspections of the nuclear facilities. This approach is consistent with international practice for nuclear safety.

The Canadian Nuclear Safety Commission (CNSC) replaced the Atomic Energy Control Board in May 2000.

27.9 The CNSC's position is that it will be prescriptive only when necessary; however, it has prepared detailed standards in some areas. For example, it has worked with the Canadian Standards Association to produce detailed standards of quality assurance and structural integrity for Canadian power reactors. It also participates in developing internationally accepted standards that are incorporated in regulations. These include standards for radiation protection and environmental protection.

CNSC's regulatory program is based on the licence holder's having prime responsibility for safety.

27.10 A key element of the Canadian nuclear reactor safety philosophy is the concept of "defence-in-depth". This refers to the use of multiple barriers to reduce the risk of accidental release of radioactive material. Keeping the probability low that a system or component in the plant will fail during operation considerably reduces cumulative risk. The defence-in-depth principle also requires that procedures be in place to mitigate the consequences of accidents — for example, special safety systems incorporated in the plant design, and built-in redundancy for multiple ways of achieving the safety objective. Exhibit 27.2 demonstrates how a Canadian power reactor works.

27.11 Another internationally accepted safety principle that is fundamental to the regulation of Canada's nuclear power stations is to keep the associated risks to workers, the public, and the environment as low as reasonably achievable (ALARA), taking into account socio-economic factors. The intent is to ensure that the level of risk associated

with Canada's older power reactors, built mostly in the 1970s and 1980s, is comparable with that of modern reactors.

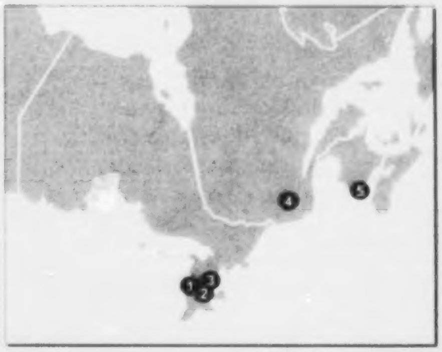
We focussed on the regulatory activities related to power reactors.

Focus of the audit

27.12 Our audit focussed on the regulatory activities related to the licensing and regulation of power reactors. This area of the nuclear industry is the most complex to license and regulate and the one undergoing the greatest change. In Ontario, major changes are expected from deregulation, the introduction of competition in 2000, and private investment. The CNSC's responsibilities related to power reactor licensees account for approximately half of its costs. In fiscal year 2000, CNSC had 440 staff and its total costs were $59 million. Power reactors represent the CNSC's most significant responsibility, given the risks to public health and safety in the event of a major accident. In addition, certain

Exhibit 27.1

Nuclear Power Stations Regulated by the Canadian Nuclear Safety Commission



① **Pickering Nuclear Generating Stations (NGS) A and B**
Ontario Power Generation Inc.
Pickering, Ontario
Pickering hosts two nuclear generating stations, Pickering NGS-A and -B. Both stations consist of four CANDU Pressurized Heavy Water reactors, each with a capacity to produce 500 megawatts of electricity. Pickering NGS-A commenced operation in 1971 and is currently in an approved shutdown state. Pickering NGS-B commenced operation in 1982.

② **Bruce Nuclear Generating Stations A and B**
Ontario Power Generation Inc.
Tiverton, Ontario
Tiverton hosts two nuclear generating stations, Bruce NGS-A and -B. Bruce NGS-A consists of four CANDU Pressurized Heavy Water reactors, each with a capacity to produce 750 megawatts of electricity. The station commenced operation in 1976 and is currently in an approved shutdown state. Bruce NGS-B consists of four CANDU Pressurized Heavy Water reactors, each with a licensed capacity to produce 840 megawatts of electricity. This station commenced operation in 1984.

③ **Darlington Nuclear Generating Station**
Ontario Power Generation Inc.
Bowmanville, Ontario
Darlington NGS consists of four CANDU Pressurized Heavy Water reactors, each with a licensed capacity to produce 850 megawatts of electricity. The station commenced operation in 1989.

④ **Gentilly-2 Nuclear Generating Station**
Hydro-Québec
Gentilly, Quebec
Gentilly-2 NGS consists of one CANDU Pressurized Heavy Water reactor that has a licensed capacity to produce 600 megawatts of electricity. The station commenced operation in 1982.

⑤ **Point Lepreau Nuclear Generating Station**
New Brunswick Power Corporation
Point Lepreau, New Brunswick
Point Lepreau NGS consists of one CANDU Pressurized Heavy Water reactor that has a licensed capacity to produce 600 megawatts of electricity. The station commenced operation in 1982.

Source: Canadian Nuclear Safety Commission, 2000 with Canada's older power reactors, built mostly in the 1970s and 1980s, is comparable with that of modern reactors.

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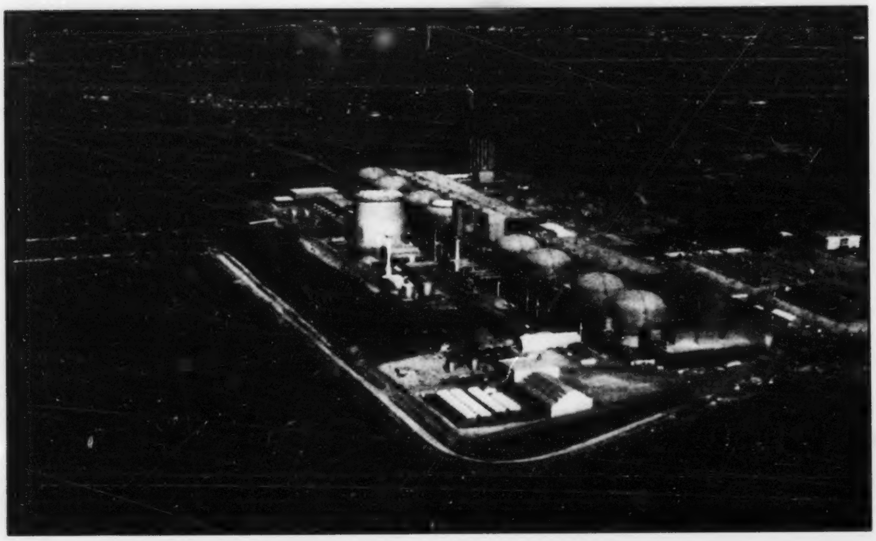
Source: Canadian Nuclear Safety Commission, 2000



Pickering Nuclear Generating Station (see paragraph 27.12).

power reactor operators acknowledged in the mid-1990s certain difficulties with the management of their stations and operating units.

27.13 Our objectives in this audit were to examine whether the regulatory regime for power reactors was satisfactory to achieve its safety objectives and others. We also sought to identify factors or constraints that affect the development or implementation of regulatory regimes.

27.14 Further details on our audit objectives, scope and criteria are presented at the end of the chapter, in **About the Audit**.

Observations and Recommendations

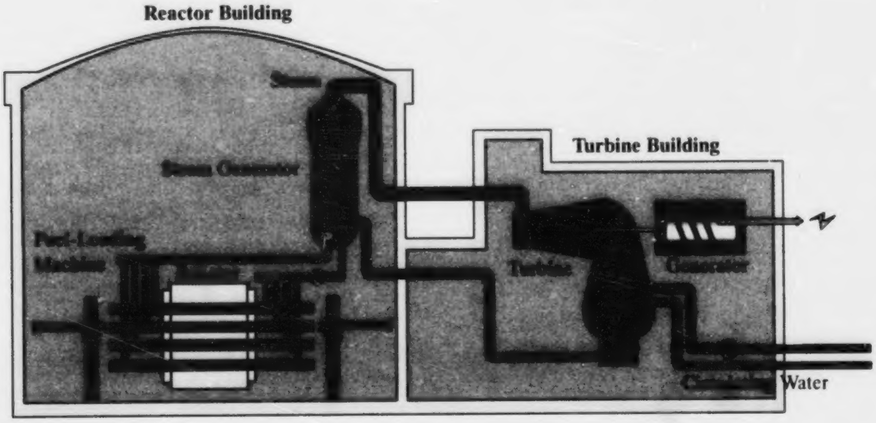
Risk Analysis and Performance Assessment

A need to improve risk analysis and assessment of licensee performance

27.15 After issuing a licence, the CNSC reviews the safety of operating nuclear power plants on a continuous basis for

Exhibit 27.2

How a Canadian Power Reactor Works



Source: Canadian Nuclear Association compliance with regulations, relevant regulatory documents, industry codes and standards, the terms of the licence, and station policies and procedures. The review process consists of a broad range of activities, including:

- annual reviews of station safety performance;
- compliance inspections;
- review of significant events reported by the licensee;
- approval of proposed plant changes, both temporary and permanent;
- safety analyses;
- review of quality assurance;
- review of radiation protection programs and environmental impacts; and
- certification of operators and assessment of training programs.

After issuing a licence, CNSC reviews the safety of nuclear power plants on a continuous basis.

27.16 The CNSC maintains staff at site project offices at each of the power reactor stations to monitor the licensee's compliance with regulations and the licence conditions. The CNSC's safety review process focusses on obtaining assurance that the risk to the health and safety of the public and employees and the risk to the environment remain within the bounds of the licensing basis for the facility. In addition, specialists at CNSC headquarters in Ottawa review and verify, in co-operation with the CNSC's site staff, the quality and reliability of key reactor components and provisions such as safety analyses, radiation protection, operating performance, safety procedures, and management of the facilities. The review process is linked to a two-year licence renewal cycle and covers all areas of CNSC's regulatory requirements.

27.17 We expected that the CNSC would base its regulatory activities on an analysis of relevant risks, the results of previous regulatory activities, and a rigorous, well-documented process linking activities to required results. We expected that it would report its assessments of regulatory performance in a way that was clear and understandable to all stakeholders. We observed significant improvement since our last audit in 1994, as a result of recent changes in the CNSC's organization, including the creation of the power reactor evaluation division (PRED) responsible for managing the overall review of nuclear power facilities' safety performance. However, there are still areas that require improvement.

Without a systematic analysis, CNSC cannot demonstrate whether it is doing enough work in any area or too much work.

27.18 The CNSC does not use quantitative measures to rate nuclear power facilities. It is aware that the industry is making extensive use of nuclear power plant performance measures, including safety-related indicators, and it is testing and refining its own recently developed set of safety performance indicators. While a few other CNSC divisions have developed formal approaches to risk analysis as a basis for proposed regulatory activity, divisions involved in power reactor regulatory work have used an intuitive approach, relying on the judgment and expertise of staff. However, safety performance indicators along with that judgment and expertise are not yet applied in any systematic, integrated way to determine the nature or level of work to be performed. Without this type of analysis, CNSC cannot demonstrate whether it is doing enough work in any area or too much, and whether it is overstaffed or understaffed.

27.19 In its licensing reports, the CNSC assesses and categorizes various aspects of performance as "acceptable", "conditionally acceptable", or "unacceptable". In addition, it provides an overall qualitative assessment of the licensee's performance along with a recommendation on whether the licence should be renewed.

27.20 The CNSC's approach to reporting on licensee performance is a significant improvement over the past practice of reporting only exceptions. It now features a standardized reporting framework, more balanced reporting, evidence to support the assessment, and an evaluation of performance that includes the views of all of the divisions involved in power reactor regulation. However, the criteria for what is acceptable or unacceptable are subjective, which can lead to lack of understanding and agreement, both within CNSC and between CNSC and licensees, on the adequacy of safety performance.

27.21 The rating "conditionally acceptable" does not clarify whether and to what degree safety is being managed properly and the licensee's action plans and progress are satisfactory. In addition, when, for example, there are 30 issues that are rated "conditionally acceptable", there is no mechanism for ranking them according to risk or integrating them to provide an overall perspective on the safety performance of a plant.

27.22 Any system of assessing licensee performance will always require the use of judgment, whether the system is qualitative, involves quantitative measurement, or combines both. Further clarification and possible expansion of the three performance ratings would improve the consistency of interpretation. In addition, clearly defined ratings would lead to more efficient communication among licensees, the CNSC, the public, and other stakeholders.

27.23 The Canadian Nuclear Safety Commission (CNSC) should implement a quantifiable rating of safety performance, taking into account the safety-related portion of other systems used in the industry, and should use this rating, along with a more rigorous and integrated risk assessment and other qualitative information, to systematically determine the level and type of regulatory effort required. CNSC should also clarify the meaning of its performance ratings ("acceptable", "conditionally acceptable" and "unacceptable") and better integrate its findings to ensure that a licensee's overall performance is clearly understood and communicated.

CNSC's response: The CNSC undertakes the regulation of safety performance by committing to a comprehensive program of regulatory oversight activities. The CNSC agrees that quantifiable ratings of licensee performance could, as part of an integrated risk assessment process, support the determination of priorities, and the level and type of regulatory effort that is deployed for different regulatory activities. The CNSC will evaluate options for such approaches.

The CNSC agrees that rankings of "acceptable", "conditionally acceptable", and "unacceptable" need to be clarified to enable consistent application and effective communication of licensees' overall safety performance. A review of the use of these rankings has already been initiated with a target for completion by fall 2000.

Criteria for what is acceptable or unacceptable are subjective and can lead to a lack of understanding.

Compliance and Enforcement Framework

Development of the compliance and enforcement framework has not been completed

27.24 After Parliament passed the *Nuclear Safety and Control Act* in 1997, the CNSC made considerable progress in revising some regulatory documents and developing new regulations that would be needed when the Act came into force. However, management acknowledged that uncertainty as to when this would happen contributed to delays in completing other regulatory documents. As well, a requirement for extensive consultation with the nuclear industry, changes in responsibilities affecting some federal and provincial bodies, and a difficult clearance process all added to the delay. Now that the *Act* is in effect, regulatory documents such as standards, policies and guides are

About 50 more guidance documents are required for power reactor regulation.

needed to clearly explain the CNSC's regulatory requirements to staff, licensees and the public. Eight major regulatory documents that set out regulatory expectations for nuclear power plants have been carried over from the old regime, but the CNSC has determined that it needs about 50 more documents for licensees as well as important additional guidance for staff. These documents are at various stages of development.

27.25 Both managers at the licensed nuclear facilities and staff of the CNSC, particularly those at site project offices, have asked that the CNSC give high priority to completing regulatory documents and communicate the new expectations clearly, particularly for the compliance program. To make the regulatory system transparent and effective, licensees need a clear understanding of the regulatory requirements, the processes for monitoring compliance, and the rules of enforcement.

A 1998 internal audit found that compliance inspections, enforcement and follow-up activities adhere to established practices.

27.26 A 1998 internal audit of compliance inspection, enforcement and follow-up activities found that they generally adhere to established practices and procedure. CNSC staff have identified instances of non-compliance with licensing conditions and followed up on them. However, the audit also found inconsistencies within and among divisions. New project officers or inspectors sometimes use standards different from those used by previous staff (either higher or lower), or different methods of obtaining assurance that licence conditions are met. Typically, the differences in obtaining assurance are a matter of whether or not an inspector relies on licensee systems and procedures.

Compliance and enforcement policy and programs to ensure consistency have not yet been implemented.

27.27 The internal audit recommended that CNSC's Executive Committee develop and approve a compliance program policy that would be implemented consistently across the organization. Such a policy was approved in early 2000 and a plan developed to implement it. In the first of four phases, a training workshop on the development of compliance programs was held in May 2000. The compliance and enforcement policy and programs are designed to identify regulatory requirements and communicate them to licensees, and also to ensure that compliance and enforcement are applied consistently and effectively across the CNSC. According to CNSC, this should lead to a more results-based and systematic approach, taking into account a licensee's past compliance history when deciding whether to increase or decrease the level of scrutiny.

27.28 To ensure that its regulations are transparent and predictable to staff, licensees and the public, the CNSC should, with all due haste, finish developing the regulatory documents that set out the requirements by which licensees will be assessed. It should also implement its compliance and enforcement policy.

CNSC's response: *The CNSC agrees that there is a need to accelerate the development of a number of regulatory policies, standards and guides. Specific objectives for this work are set out in the CNSC's Strategic Plan 2000. To achieve ordered progress in this area, senior staff members have been taken off-line and assigned full time to the development of the regulatory framework, and a committee has been set up to establish the priorities for work on regulatory documents. Among the activities that are already in progress is a comprehensive program that is dedicated to the implementation of the compliance and enforcement policy.*

Human Resource Management

Human resource capacity is critical to success

27.29 From the early years of the CNSC, the combination of its small size and its growing technological complexity fostered the evolution of an informal organizational structure and related regulatory processes. The CNSC adopted a non-prescriptive approach to regulation, relying on the competence and professional judgment of its growing complement of knowledgeable staff.

27.30 As its staff increased from 50 in the early 1970s to about 440 today, the CNSC was successful in attracting suitably qualified scientists and engineers from industry to its expanding organization. However, its approach to regulation continued to be non-prescriptive and relied heavily on the knowledge and competence that its staff had gained earlier in their careers. In the 1990s, it became clear that this pool of expertise would begin to disappear as experienced staff moved closer to retirement eligibility. Given the shrinking pool of external expertise and an increasingly competitive market for talent, it was obvious that the CNSC would need to make major adjustments to the management environment.

27.31 Beginning in 1995, several project teams were formed to identify areas for management improvement. This initiative later became known as Project '96 and resulted in about 400 recommendations, which included 110 recommendations for improving human resource management, including training. Since 1997, the Human Resources Management Division has set a number of priorities for development or revision of human resource policies and practices in the CNSC as well as their formal documentation. The most important included a new classification standard and related salary structure; competency profiles and statements of roles and responsibilities for all levels of management; and approval of an annual training strategy. While this represents a significant step forward, there are still significant issues that need to be addressed.

27.32 CNSC is exempt from the *Public Service Employment Act* and can therefore develop and apply its own recruitment policies and practices. Similarly, it has authority to design and implement job classification and compensation programs distinct from those of the public service.

Recruitment and staffing strategies needed

CNSC relies heavily on the knowledge and competence of its staff.

27.33 Like other federal regulatory organizations and nuclear regulators in other countries, CNSC faces difficulties in recruiting scientific and technical staff. At May 2000 the organization had 54 vacant positions — 29 in the power reactor business line. Some positions have been vacant for more than a year, and vacancies of 3 to 10 months are common. As an example, during the past year there were seven vacant positions for inspectors. Although the CNSC's recruiting efforts generated 351 applications, the five offers it made were rejected. Five positions have since been filled through redeployment; two remain vacant. In fiscal year 2000 there were 28 new staff hired, and 16 internal moves took place within the power reactor business line.

The 8 percent vacancy rate in the power reactor business line and the lengthy time required to fill vacancies have a significant impact.

27.34 The CNSC has streamlined its processes, initiated some new recruiting activities, and developed other means to help retain staff, such as policies for retention bonuses and career development and training programs. However, it has not developed a formal recruiting strategy and action plan to give priority and direction to its efforts at filling the technical and other staff vacancies. The present vacancy rate (about 12 percent overall; 8 percent in the power reactor regulation business line) and the lengthy periods of vacancies in technical positions have a significant impact, in our view, on the CNSC's ability to effectively inspect and regulate the nuclear industry, despite management's efforts to reduce that impact. Some key areas are understaffed at a time when the workload is particularly heavy. The lack of staff has contributed to delays in completing plans for relicensing some power reactor plants.

27.35 CNSC needs to develop a formal recruitment strategy and action plan to overcome the deficit in staff and ensure that the organization possesses the skills and expertise to fulfil its mandate.

Succession planning is a priority

Of 74 managers, 31 could elect to retire within the next five years.

27.36 The employee population in the CNSC is aging: according to data provided by CNSC, at April 1999 the average age was 45 years, identical to the public sector regulatory/inspection community but higher than the general public service population at 42 years. Also, 31 of 74 managers could choose to retire within the next five years.

27.37 Depending on how many retire, the CNSC could face not only loss of leadership but also loss of the high-level expertise that the current group of executive managers and other senior staff have acquired over many years, including experience with the industry. Moreover, the potential attrition by retirement at other levels across the organization heightens the need for a formal recruitment strategy and action plan that takes full account of the future staff needs resulting from attrition.

At the time of our audit, roles and accountabilities of site project offices and headquarters technical specialists were not clear.

27.38 Succession planning was identified as a priority in the 1999-2000 human resources program and was split into phases. The first phase identified a talent pool for director-level positions. The next phase was scheduled for fall 2000 and would target the management level immediately below.

27.39 We encourage the CNSC to continue its succession planning efforts and complete its strategy and action plan for recruitment, based on historical and potential attrition rates.

27.40 The CNSC should develop a human resource planning process that profiles present internal resources and forecasted needs, identifies historical, present and potential attrition rates, and assesses the implications of various policies on the distribution and movement of employees. It should update the human resource plan regularly and link it to the maintenance and administration of a formal plan for recruitment.

CNSC's response: The CNSC recognizes that in the past, human resources planning may not have been conducted as rigorously as it should have been. The CNSC agrees with the intent of the recommendation and has already put into place a human resources planning process. The CNSC believes that its Strategic Plan has been very clear on this point, and it will endeavour to strengthen linkages between the strategic, corporate and budget planning processes and the human resources plan.

Roles and accountabilities need to be clarified

27.41 Until 1998, the CNSC was structured in such a way that the site project office at each nuclear power reactor site co-ordinated much of the regulatory activity related to planning and conducting evaluations of performance of power reactor facilities. In January 1998, the CNSC initiated changes to improve its planning, integration, and reporting of regulatory activities related to the licencing of power reactors. A new division was formed to manage the review of reactor facility design, construction, operation, and maintenance; integrate the information generated by all relevant CNSC activities; and advise senior management and the members of the Commission on the overall performance of each nuclear facility.

27.42 At the time of our audit, the respective roles and accountabilities of the site project offices and the headquarters technical specialists were not clearly defined and understood. For example, the staff at site project offices are unclear on who is responsible for taking the lead on specific issues. In the absence of clear accountability, assumption of the lead role is often ad hoc, and various groups play a role in evaluation and assessment. The lack of a clear understanding and effective implementation of the centralized approach to planning and reporting has allowed for the fragmenting of accountabilities and made it difficult to reach consensus on the overall level of safety at each nuclear facility.

27.43 The CNSC comprises five members of the Commission, including the President, appointed by the Governor in Council. The President is the chief executive officer and directs the work of both the members of the Commission and CNSC staff. The President chairs meetings of the members of the Commission. Many of the people we interviewed noted that senior management is responsible for developing regulatory philosophy and documents, but has had difficulty dealing with key issues. This has led to long delays in implementing change. Others we interviewed cited a lack of understanding between members of the Commission and CNSC staff on some regulatory issues.

27.44 While there is a need to maintain the regulatory independence between the staff and members of the Commission, we believe that clarifying roles and accountabilities by separating the position of chair of the meetings of members of the Commission from that of chief executive officer could improve the efficiency of the CNSC's operations and help it to demonstrate its effectiveness.

27.45 The CNSC should clarify the roles and accountabilities for planning and integrating regulatory activities and reporting on licensee performance, and communicate them internally and to licensees. In addition, it should consider separating the role of chair from that of chief executive officer.

CNSC's response: *The CNSC agrees that, to improve accountability and regulatory effectiveness, effort is needed to improve the implementation of the roles and responsibilities for planning and integrating regulatory activities and reporting on licensee performance. A review of roles and responsibilities has been planned. It will be followed by action to communicate and manage implementation of the resultant responsibility framework. The separation of chair and CEO is not our preferred solution to some of the issues raised. However, we will take it into consideration in addition to other options.*

Separating the position of chair from that of chief executive officer could improve CNSC's operations.

Conclusion

27.46 The public places a high reliance on the regulator of nuclear power facilities, and the CNSC is committed to operating in an open and transparent fashion. In our view, if CNSC strengthens its risk analysis and assessment, completes the changes it has begun in compliance and enforcement, and takes steps to ensure that it has the human resource capacity it will need in the future, the regulatory regime for power reactors will be designed, structured, organized and implemented to achieve its safety objective and other objectives.

About the Audit

Objectives

Our objectives for the audit were to:

- assess whether the regulatory regime for power reactors has been satisfactorily designed, structured, organized and implemented to achieve its safety and other objectives, for example, cost recovery; and
- identify factors or constraints that affect the development or implementation of regulatory regimes. These may include delays in legislative changes, overlaps with provincial jurisdictions, downsizing, and the effects of international harmonization of regulatory approaches.

Scope and Approach

We conducted structured interviews with 88 people, including senior executives in CNSC and industry. We visited three licensees at four plant sites and also visited the Nuclear Installations Inspectorate in the United Kingdom. In addition, we reviewed more than 250 documents. Our audit was conducted between October 1999 and July 2000.

Criteria

With respect to the audit objectives, we assessed the regulatory regime for power reactors against the following audit criteria.

Regulatory programs should be designed, organized and implemented based on:

- a comprehensive analysis of health and safety risks and sufficient staff, expertise and resources;
- a comprehensive analysis of alternative regulatory regimes to address identified risks, including an assessment of the capabilities of industry and government, consultations with stakeholders, costs and benefits, and policies for maintaining transparency and public access to information;
- a clear statement of the respective responsibilities of government, industry and other parties and ongoing consultations with stakeholders;
- a clear statement of guiding ethical principles and a conflict-of-interest policy;
- clear and comprehensive performance objectives or goals for each of the areas subject to regulation;
- clearly defined key performance data, specifications for measurement procedures and data to be used, and clear policies for government to have timely and unimpeded access to all necessary data;
- clear policies for the establishment of cost-recovery or regulatory fees;
- clear policies and procedures for ensuring compliance and enforcement of Canadian laws and international standards (to which CNSC has agreed), for resolving complaints and for reporting and remedying regulatory failures, including any penalties that may be imposed;
- effective departmental accountability and review structures, for example, audit, evaluation, performance measurement, complaint resolution, that are consistent with the regulatory approach adopted; and
- clear, accurate, comprehensive and timely reporting to management and Parliament on the relevance of regulations, their effectiveness, and the cost of the programs.

Audit Team

Assistant Auditor General: John Wiersema
Principal: Crystal Pace

Gaetan Poitras
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Chapter 28

Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

The follow-up work was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

Table of Contents

Page

Main Points 28-5

Introduction 28-7

Agriculture and Agri-Food Canada — Animal and Plant Health: Inspection and Regulation — 1996, Chapter 9 28-8

Transport Canada — The Commercialization of the Air Navigation System — 1997, Chapter 19 28-10

National Energy Board — 1998, Chapter 13 28-13

Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

Main Points

28.1 This chapter presents our follow-up of three previously reported audits of federal health and safety regulatory programs. The Animal and Plant Health segment is a further follow-up to that reported in Chapter 28 of our 1998 Report.

28.2 Since our 1996 audit on animal and plant health, a number of initiatives have been undertaken within the Canadian Food Inspection Agency to address our recommendations concerning the assessment of risk and alternative service delivery; however, work remains to be done. Because many of our recommendations were long-term in nature, we did not yet expect their implementation to be complete. Progress is satisfactory, except in several specific areas.

28.3 Transport Canada has made satisfactory progress in the areas of risk analysis and audit and inspection. However, it has still not conducted or planned any formal review of the quality of Civil Aviation Daily Occurrence Reporting System (CADORS) data or any other safety performance data regularly supplied to it by NAV CANADA. The Department also has not yet established a formal process to reconcile the data it receives from NAV CANADA with the data from the Transportation Safety Board's incident-reporting system to ensure completeness.

28.4 The National Energy Board has made a good effort to meet its commitments and implement the recommendations. Progress has been slower than anticipated in some areas but is on track for full implementation in the near future. The Board has taken the tasks seriously and assigned senior staff to ensure successful completion.

Introduction

28.5 It is our policy to make recommendations in all of our audits that are oriented toward correcting problems and improving the management of government. We encourage management of the entities that we audit to respond to us in writing, stating whether they agree with our recommendations, and indicating the corrective action they plan to implement. We, in turn, publish their responses in our report to inform Parliament and the public.

28.6 Approximately two years after the initial audit, we return to determine what action has been taken by the entity toward implementing corrective action. This work forms the basis of our follow-up report.

28.7 Apart from a few unique situations, a follow-up is not a second audit of the same issues. Rather it is a report on what management tells us, or can demonstrate to us, about the progress it has made toward meeting our recommendations since our initial report on the subject. We do not exhaustively seek or examine additional evidence to support or refute what management has told us, but we do review its claims for reasonableness and report to Parliament accordingly.

28.8 This chapter presents our follow-up of three previously reported audits of federal health and safety regulatory programs. The Animal and Plant Health segment is a further follow-up to that reported in Chapter 28 of our 1998 Report. The remainder of our follow-up report is in Chapter 33 of this report.

Agriculture and Agri-Food Canada — Animal and Plant Health: Inspection and Regulation — 1996, Chapter 9

Assistant Auditor General: Doug Timmins
Principal: Neil Maxwell

Background

28.9 In our 1996 Report, we made a number of observations and recommendations on the animal and plant health programs of Agriculture and Agri-Food Canada. They focussed on program delivery and design, performance measurement, and cost recovery, avoidance and reduction initiatives.

28.10 In 1997, the animal and plant health programs, along with the food and fish inspection activities of Agriculture and Agri-Food Canada, Health Canada and Fisheries and Oceans, were consolidated into the Canadian Food Inspection Agency.

Progress is satisfactory, except in several specific areas.

28.11 In our 1998 follow-up, we reported on the status of our 1996 recommendations.

Scope

28.12 Our 2000 follow-up work was conducted as part of the Office's examination of federal health and safety regulatory programs (see Chapter 24 of this Report). We focussed on two issues from our 1996 audit and 1998 follow-up that are examined in Chapter 24 — assessment of risk and alternative service delivery. We interviewed officials from the Canadian Food Inspection Agency and Health Canada and reviewed supporting documentation provided to us.

Conclusion

28.13 Since our 1996 Report, a number of initiatives have been undertaken to address our recommendations concerning the assessment of risk and alternative service delivery; however, work remains to be done. Because many of our recommendations were long-term in nature, we did not yet expect their implementation to be complete. Progress is satisfactory, except in several specific areas.

Observations

Assessment of risk

28.14 In our 1996 chapter, we noted that a risk assessment process had been developed; however, it focussed on imports, not on domestic health threats, regulated diseases, weeds and toxic substances. We recommended several improvements in both information gathering and assessment of information. We also recommended more effective use of risk assessments in determining program-wide priorities and allocating resources to higher-risk areas.

28.15 In this follow-up, we found that the Agency has improved its information gathering by enhancing surveillance activities and incorporating the resulting information into the risk assessment process. The Agency has broadened its risk assessment focus beyond imports and conducts a large number of animal and plant health risk assessments annually.

28.16 The Agency is making satisfactory progress toward addressing our 1996 audit concerns, with the following exceptions:

- Little progress has yet been made in assessing the risks of weeds and toxic substances; however, plans exist to address these issues in the near future.
- The Agency has attempted to develop a risk-based resourcing process,

but so far without success. This issue is discussed further in our audit of food inspection at the Canadian Food Inspection Agency (see Chapter 25 of this Report). We did note, however, a number of cases within the animal and plant health programs where the Agency has reallocated resources based on risk.

Alternative service delivery

28.17 Our 1996 Report noted that the increasing use of alternative service delivery mechanisms meant that systems to monitor and control these activities would become more important.

28.18 Our 1998 follow-up concluded that because monitoring and control activities were relatively new, their success was not yet known.

28.19 In this follow-up, we examined five major areas where alternative service delivery mechanisms are in place. We concluded that satisfactory progress in establishing monitoring and control activities is being made in four of the five areas.

28.20 Considerable attention has been paid to monitoring and controlling compliance in the areas of greenhouse certification, nursery certification, accreditation of the Canadian Seeds Institute, and accreditation of external laboratories. Frameworks are in place that define the responsibilities of Agency staff and outside parties. They describe the methods to be used by regional staff to monitor and control activities of outside parties, and by headquarters staff to manage and control the national programs. The key monitoring and control activities set out in the frameworks are taking place.

28.21 In the area of accreditation of veterinarians, we found deficiencies in mechanisms at the national level. A framework is in place, but key monitoring and control mechanisms are still being implemented.

In the area of accreditation of veterinarians, we found deficiencies in monitoring and control mechanisms at the national level.

28.22 Alternative service delivery mechanisms are relatively new. Effective controls for these mechanisms are needed — controls that strike a balance between too little and too much control. For this reason, we believe that the Agency's senior management needs to regularly review monitoring and control activities.

Transport Canada — The Commercialization of the Air Navigation System — 1997, Chapter 19

Assistant Auditor General: David Rattray
Principal: Hugh McRoberts

Background

28.23 In November 1996, Transport Canada transferred the assets and operation of the Air Navigation System to NAV CANADA, a not-for-profit corporation created for that purpose. The Department retained its responsibility for regulating and overseeing the safety of air navigation services in Canada.

Transport Canada has made satisfactory progress in the areas of risk analysis and audit and inspection, but not in review of quality of safety data and assurance of completeness of data.

28.24 In 1997 we audited the Commercialization of the Air Navigation System (ANS) and reported our observations and recommendations in our October 1997 Report, Chapter 19. This year we conducted a follow-up as part of the audit of the Federal Health and Safety Regulatory Programs to determine the progress made by the Department since our last audit. Our follow-up dealt specifically with the Regulation of Safety.

Scope

28.25 The scope of our review was restricted to identifying and analyzing the changes that have occurred since the end of our 1997 audit. We limited our work to reviewing documents, including management's representations, and discussing them with management. While we assessed the materials for reasonableness and consistency, we did not seek independent corroborative evidence to verify the information in those documents.

Conclusion

28.26 The Department has made satisfactory progress in the areas of risk analysis and audit and inspection. However, it has still not conducted or planned any formal review of the quality of Civil Aviation Daily Occurrence Reporting System (CADORS) data or any other safety performance data regularly supplied to it by NAV CANADA. The Department also has not yet established a formal process to reconcile the data it receives from NAV CANADA with the data from the Transportation Safety Board's incident-reporting system to ensure completeness.

Observations

Need for risk analysis

28.27 In 1997 we highlighted the need for systematic and quantitative analysis of risks as well as the importance of methodology and staff training.

28.28 Overall, the Department has made satisfactory progress in this area. It has established a policy (TP 13095) for the systematic management of risk that prescribes the application of "Q850", the Canadian Standards Association (CSA) decision-making process, as a standard methodology. About 85 percent of the Air Navigation Services and Airspace inspectors have been trained in the Q850 methodology. The Air Navigation Services and Airspace Branch has stated that close to 100 percent of its inspectors will have taken this training by the end of fiscal year 2000–01. The Department's Manual of Aeronautical Studies (TP 13011) requires that Q850 be applied in the conduct of the Department's aeronautical safety studies.

Standards for air traffic control

28.29 In 1997 we observed that automated systems for air traffic control did not appear to be subject to any regulation.

28.30 This situation has not materially changed as the Department has not developed domestic standards for automated systems. The Department has indicated that it has taken some initiatives but has not achieved the desired progress. It is awaiting direction from the International Civil Aviation Organization (ICAO), whose progress in this area has been very slow, according to the Department, because of difficulty in international harmonization. The Department believes that ICAO and its member states have not supported the safety case for including automated Air Traffic Management (ATM) systems in the international standards. A technical specialist of the Air Navigation Services and Airspace Branch participates in the Radio Technical Commission for the Aeronautics (RTCA) Special Committee 189, Air Traffic Services Safety and Interoperability Requirements. The committee works jointly with the European Organization for Civil Aviation Equipment (EUROCAE) Working Group (WG-53) to define safety objectives and interoperability requirements for the Air Traffic Services (ATS) aircraft interface.

Reporting on performance of the ANS

28.31 In 1997 we stated that the requirement that NAV CANADA report in accordance with the CADORS manual should provide for the timely reporting of key data. We also stated that the Department needed to establish a means whereby it could gain assurance that the CADORS reports it receives from NAV CANADA are complete. We observed that the Department had neither planned nor conducted any audits to verify the quality of the data supplied by NAV CANADA.

28.32 The Department has stated that it continues to obtain key safety data from NAV CANADA regularly, in accordance with the requirements of the CADORS manual, and that it now receives CADORS reports from NAV CANADA in a timely manner. The Department also continues informally to compare the reports it receives from NAV CANADA with data from the incident-reporting system operated by the Transportation Safety Board (TSB) of Canada; however, it has still not established a proper reconciliation process. In addition, the Department has not conducted or planned any formal review of the quality of CADORS data or any other safety performance data regularly supplied to it by NAV CANADA. The Department has informed us that "indirect verification" of the data quality is accomplished through regulatory inspections, audits and investigations.

Transport Canada has not developed domestic standards for automated systems.

28.33 The incident rate for losses of separation (the spacing required between aircraft) is a primary indicator of safety performance for an air navigation service provider. To be useful for both management and accountability purposes, it is critical that these data be both timely and correct. We would expect that by now the Department would have established a basis for reconciliation of the CADORS reports with the Transportation Safety Board system. Further, because of the importance of these data, we would expect that the Department's audit regime for NAV CANADA would include tests of the completeness and accuracy of CADORS reports by reference to primary sources (radar and voice tapes). In one other jurisdiction where such tests have been carried out, officials have found that self-reporting systems tend to understate the occurrence of incidents.

Audit and inspections of safety

28.34 In 1997 we observed that the Department had only limited audit plans to conduct site manual validations. It had also not yet done any safety audits of NAV CANADA and had not conducted audits or inspections of NAV CANADA's operations.

28.35 The Department started its first audit and inspection activities in August 1997. To date, the Air Navigation Services and Airspace Branch has completed over 150 audits and inspections, identifying 130 findings and observations. The Department also plans a comprehensive audit of NAV CANADA's Safety Management System, to be completed by the end of calendar year 2000. Future audit and inspection activities will be carried out in accordance with the Air Navigation Services and Airspace Branch's policy on frequency of inspections based on triggers and risk.

Aeronautical studies are conducted for all proposed changes to the levels of service in air navigation.

Safe delivery of air navigation services

28.36 In 1997 we observed that the Department had some distance to go before it had in place a fully functioning regulatory regime for NAV CANADA. We noted that there were important matters of risk, data, and audit and inspection that must be resolved before the regime could be said to be fully operating. We also noted that significant progress was needed in implementing the key elements of the performance-based regulatory regime. Until this was achieved, the Department would not be in a position to have full assurance on NAV CANADA's operational compliance with the requirements of the Canadian Aviation Regulations and ICAO standards.

28.37 The Department has stated that it is moving to develop additional regulations and standards covering simultaneous instrument runway operations, which will also apply to air carriers and aerodrome operators. It is also developing standards for safety management systems of all service providers and making significant additions to section 801.

28.38 The Department believes that substantial progress has been made in developing a comprehensive manual of policies and procedures for the program, improving data capture and analysis, establishing an effective joint Transport Canada/NAV CANADA Safety Oversight Committee and related working groups, conducting numerous aeronautical studies and taking action in response to emerging issues.

28.39 The Department has stated that NAV CANADA has fully complied to date with the regulatory requirements governing the establishment of a safety management program. Under a formal agreement between NAV CANADA and the Department (the safety charter), aeronautical studies are conducted for all proposed changes to the levels of service in air navigation.

28.40 The Department believes that almost four years after the commercialization of the Air Navigation System, the air navigation safety net is stronger than ever. The Department believes that by separating its former roles of both a safety regulator and service provider, it can now better concentrate on its role as a regulator. Accordingly, NAV CANADA (the service provider) can focus its efforts on providing air navigation services under its own safety management system while providing key safety performance information to Transport Canada. The Department has stated that the requirement for NAV CANADA to maintain a significant level of insurance coverage worldwide adds another level of safety assurance through the underwriters' role in managing risk.

National Energy Board — 1998, Chapter 13

Assistant Auditor General: Ronald C. Thompson
Principal: Roger Simpson

Background

28.41 The National Energy Board (the Board) has the responsibility to regulate Canadian pipelines and electrical transmission lines that cross provincial or international borders. Most of its activities deal with international and interprovincial oil and gas pipelines and exports.

28.42 In our September 1998 Report, we noted that:

- the Board had changed its operation significantly but not its enabling legislation;
- the Canadian pipeline system was aging, thus posing potential threats to public safety and the environment;
- the Board's environmental inspection program contained shortfalls;
- the Board's cost recovery philosophy and methods were in need of renewal; and
- the Board's results-based management process needed improvement.

Scope

28.43 Our 1998 Report, Chapter 13 contained seven recommendations. This follow-up provides further information on the actions taken by the Board to address our recommendations, and on any further work still to be done. We have reviewed the information provided by the Board and discussed it with senior Board staff, but we have not audited the information.

Conclusion

28.44 The Board has made a good effort to meet its commitments and implement the recommendations. Progress has been slower than anticipated in some areas but is on track for full implementation of recommendations in the near future. The Board has taken the tasks seriously and assigned senior staff to ensure successful completion.

Observations

28.45 Exhibit 28.1 lists the 1998 recommendations and the actions taken, expected results or benefits to be achieved, and whether or not the implementation process is complete. Where recommendations have been completed to our satisfaction, we have made no further comments. Where items are still in progress, we have added relevant comments.

Incidents database

An improved incident database will support pipeline safety and safety initiatives.

28.46 In 1998 we recommended that the National Energy Board improve its incident database. Since then, the Board has made some progress in meeting its goal to complete this by December 1999; however, there was some slippage due to Year 2000 priorities and the need for an industry-wide common data dictionary, which is being developed by a third party. The data dictionary will not be ready until mid-2003.

28.47 The Board's incident database should be able to adopt the common data dictionary when it is ready. The Board intends to play a role in the dictionary's development. This would ensure that the Board's needs are addressed fully and that evolving results can be incorporated along the way. The second part of the recommendation on management of information has been completed.

Exhibit 28.1

Status of Action Taken on 1998 Recommendations of the Auditor General (Chapter 13)

Office of the Auditor General Recommendations/National Energy Board Responses	Action Taken by the National Energy Board	Status	Key Expected/Anticipated Benefits by the National Energy Board
13.34 The National Energy Board should: • **increase its capacity to analyze pipeline incidents by improving its database, including the sharing of data with other jurisdictions and other regulators; and** • **improve its management of information to ensure that recommendations arising from pipeline investigations are systematically followed up and that corrective measures taken are documented.** *National Energy Board response:* *The Board accepts the recommendation and will implement an internal database for the tracking of recommendations by 30 September 1998. The Board will develop an action plan by 30 October 1998 to improve its database for pipeline incidents, with a longer-term goal of having a database to be shared with other jurisdictions in place by December 1999. We will build on existing initiatives to ensure that the Board's needs and those of other regulatory agencies and the industry are met.*	**Pipeline Incident Database** The National Energy Board developed an action plan by 30 October 1998 to improve its database. The database is expected to be operational by 31 December 2000 to track pipeline incidents that occurred from 1994 to 2000. Implementation was delayed due to Year 2000 priorities. The need to develop a common data dictionary for the industry is required prior to sharing of an incident database with other jurisdictions. The Canadian Standards Association has agreed to develop the common data dictionary, with a target completion date by mid-2003. According to the Board, its incident database should be able to adopt the common data dictionary when it is ready.	In Progress	Improve risk management by assisting in the assessment of the probability of incident recurrence and the identification of key factors precipitating the incidents. Support pipeline safety and safety initiatives.
	Tracking of Incident Recommendations The database for tracking recommendations was completed by 30 October 1998. As at 1 May 2000, the system had tracked 252 recommendations since 1992. Of these recommendations, 203 have been completed, and the remaining 49 have been scheduled for follow-up by the end of 2000. All corrective measures taken by the companies are documented and filed sequentially.	Completed	Ensure that all the Board recommendations resulting from incident investigations are followed up systematically. Use resources better by multi-tasking field visits.
13.47 The National Energy Board should: • **determine its environmental information management needs and develop an appropriate system; and** • **ensure that all requirements associated with Board approvals are monitored systematically for compliance and to see if they are accomplishing the desired results.** *National Energy Board response:* *The Board accepts the recommendation and has expanded its existing compliance monitoring system to include all Board approvals of facilities. Although the recommendation is specific to environmental information management needs, we believe there is a significant benefit in the integration of the environmental and safety auditing programs. We will develop an action plan by 30 October 1998 for the complete review of our environmental and safety information needs and an action plan for the development of an appropriate information management system.*	**Environmental and Safety Information Management System (ESIM)** An action plan for ESIM was completed by 30 October 1998 and a detailed project plan was in place by March 1999. The Board has completed year one of the three-year project. Years two and three of the project will add enhancements to the system. When ESIM is completed, the Board will have spatial representations of all Board regulated facilities with the cumulative information on environment and safety.	Completed	Ensure all environmental and safety requirements associated with Board approvals are tracked and monitored in an efficient manner. Evaluate the compliance and desired end results of the requirements.
	Condition Tracking System Board conditions relating to approval of facilities were tracked since 1998. This system will become a component of ESIM by incorporating all conditions starting in the year 2000.	Completed	

Office of the Auditor General Recommendations/National Energy Board Responses	Action Taken by the National Energy Board	Status	Key Expected/Anticipated Benefits by the National Energy Board
13.58 The National Energy Board should: • **use a rigorous risk assessment methodology to determine the level of safety and environmental inspections and audits needed to fulfil its legislative responsibilities, and allocate its resources accordingly; and** • **formalize its environmental inspection procedures and strengthen its documentation practices.** *National Energy Board response:* *The Board accepts the recommendation and, as noted in the chapter, has a project under way to develop a risk assessment tool to assist in the allocation of resources to safety and environmental audits. The project will be completed by 30 November 1998. The Board will review all of its environmental and safety audit procedures and ensure that they are complete and in place by 31 December 1998. Adherence to procedures will be an emphasis of management. The Board will increase the resources allocated to its safety and environmental auditing program to replenish those resources lost through attrition or those resources diverted to handle the extremely high applications workload experienced in the past few years.*	A prototype Risk Prioritization Methodology was developed by 30 November 1998. The methodology was modified, using a semi-quantitative approach, and completed by 30 April 1999. A risk-based priority listing of all Board-regulated above-ground facilities was completed in September 1999. The Board will develop a risk prioritization model for pipeline integrity and for related environmental audit issues to be completed in 2000–01. The Board has reviewed and approved 13 safety and environmental procedures during 1999 and 2000. Additional procedures for pipeline crossing and emergency response will be developed. Team leaders are accountable for adherence to procedures that are reflected in the procedures and FOCUS process, a performance evaluation and development tool. The Board has increased the resources allocated to its safety and environmental audit program by hiring additional specialists.	In progress	Provide systematic assessment of safety and environment risks to better focus the inspection and audit efforts. Provide capability to focus on risk areas identified for audits. Document procedures to establish minimum requirements for audits and inspections.
13.70 The National Energy Board should ensure that its human resource management activities are clearly linked to its vision of the future and that its related projects are carried out in accordance with a systematic plan and in response to its operational needs. *National Energy Board response:* *The Board accepts the recommendation. In the fall of 1998, the Board will develop clearer context, strategies and expectations for performance. This will provide the environment within which human resource management activities can be more clearly linked to the Board's vision of the future and enable the development of a systematic human resource strategic plan. A human resource strategic plan will be in place by 1 April 1999.*	In November 1998, the Board developed a three-year strategic plan on which the 1999–2000 Report on Plans and Priorities was based. For 1999–2000, the FOCUS on Performance and Development, a performance evaluation and development tool, was linked to corporate goals through Business Unit and Teamwork plans. A human resource strategic plan was approved in July 1999. The purpose of the plan is to create the conditions required for the Board to attract and retain staff with the skills and orientation to meet the needs of the organization in the future. The Board is implementing initiatives arising from the human resource strategic plan.	Completed	Improve personal and organizational performance and help focus on results by better understanding of goals, strategies and expectations for performance. Create conditions required to attract and retain staff to meet the needs of the organization in the future.

Office of the Auditor General Recommendations/National Energy Board Responses	Action Taken by the National Energy Board	Status	Key Expected/Anticipated Benefits by the National Energy Board
13.78 The National Energy Board should: • **recover its future costs in a more equitable and acceptable manner, to be developed in consultation with the regulated industry; and** • **develop a cost accounting system so it can identify the costs of processing applications and of other activities, for cost recovery and management purposes.** *National Energy Board response:* *The Board accepts the recommendations, and has already started negotiations with the cost recovery community for a complete review of all aspects of the cost recovery regulations. A recommendation for a new, more equitable methodology will be made by the second quarter of 1999–2000. Also, a review of the financial planning and reporting processes and a redesign of the management information systems are targeted for completion by the end of the fiscal year 1999–2000.*	**Recovery of Costs from the Regulated Industry** The Board and the Cost Recovery Liaison Committee (CRLC), representing the regulated industry, reached consensus that the industry is essentially satisfied with the current regulations and would prefer to make only moderate changes to address specific concerns. Those changes addressing the specific concerns are being prepared for formal submission to central agencies.	Completed	Reach and confirm consensus with industry on acceptable cost recovery of Board's future costs.
	Cost Accounting System The Board reviewed its financial planning and reporting process by June 1999. The redesign of the management information system will be implemented for 2000–01. The planned management information system will provide costs by corporate goals and related key activities through coding of operations and maintenance costs incurred. Cost of personnel by goals and activities will be accomplished by using Time Reporting System hours multiplied by average hourly rates for the teams. The results require significant manual calculation. Corporate Services will be reporting results quarterly starting June 2000.	Completed	Provide costing information by corporate goals and related key activities.
13.98 As it continues its efforts to manage for results, the National Energy Board should: • **improve the clarity of its expectations;** • **monitor its performance regularly and make adjustments as needed;** • **state clearly the results it has achieved and at what cost; and** • **designate a co-ordinator for each business unit to monitor key performance indicators.** *National Energy Board response:* *The Board accepts the recommendations. It recently hired a team leader for planning and reporting, who has started a review of financial planning and reporting processes and is designing a training program for users of the management information systems. A new individual performance management process called "FOCUS" was introduced in April 1998, and a strategic planning process will be started in September 1998. These are seen as critical first steps to both increase the individual's and the organization's performance and improve the processes to report on that performance.*	The Board has made progress in its 1998–99 and 1999–00 Report on Plans and Priorities. Each of the corporate goals is supported by objectives. Work on establishing stronger links with the objectives and measurements is continuing.	Completed	Provide useful performance reports for accountability purposes.
	The Board is continuing the development of various performance indicators. It expects the indicators developed will assist it to make adjustments as needed.	In progress	Adjust and focus the Board's efforts and resources to areas of need.
	The Board decided to report costs of corporate goals and key activities.	Completed	Improve accountability by reporting cost of corporate goals and related key activities.
	The ExTeam approved the proposal of setting up a Results, Planning & Reporting Working Group in its 16 October 1999 meeting. The group is headed by a representative of the Planning and Reporting Team with representation from each business unit. Its roles include the establishment of performance indicators. The Business Unit Leader is responsible for its business unit performance indicators. The Chief Operating Officer, assisted by the Corporate Services Planning Team, is the Board's Performance Report Coordinator.	Completed	Improve the processes to report on performance.

Office of the Auditor General Recommendations/National Energy Board Responses	Action Taken by the National Energy Board	Status	Key Expected/Anticipated Benefits by the National Energy Board
13.102 The National Energy Board should reinforce its audit and evaluation function and commission an evaluation. *National Energy Board response:* *While the Board was initiating a profound business transformation and reorganization over the last two years, it chose to limit the number of internal audit projects. Now that it has moved to the implementation of our vision and the rate of internally generated change has gone down, it agrees that it ought to reinforce our audit and evaluation function. The Board will adopt an explicit audit and evaluation program by 1 April 1999.* *The Board also agrees that the time has come for an evaluation of the program's effectiveness. It will consult with our stakeholders, including the policy arm of government, to determine the value of an evaluation of the program's continued relevance. We will undertake to determine the scope of the evaluation and its timetable by 1 April 1999.*	**Reinforce the Audit and Evaluation Function** The Board approved an Audit and Evaluation Multi-Year Plan for November 1998 to March 2001 on 18 November 1998. This plan is updated annually. The contract budget has also increased to reinforce the Audit and Evaluation function. During 1998-99 and 1999-00, the Audit Evaluation Unit completed nine reviews.	Completed	Assist the Board and its management in monitoring the performance of programs and operations and compliance with policies. Provide an independent review of the Board program.
	Evaluation of Effectiveness of the National Energy Board In the summer of 1999, the Board engaged consultants to provide information, analysis and recommendations on the effectiveness of the Board's programs and services. The Board received the consultants' final report in March 2000. The report confirmed certain strengths and commented on opportunities for improvements. The Board will address the six key priority areas identified.	Completed	

Risk assessment

28.48 Another recommendation in 1998 called for the Board to develop rigorous risk assessment methodology to improve the safety and environmental inspections and audits. The Board accepted the recommendation and committed to a completion date of 31 December 1998. While it has made significant progress toward meeting this goal, it is not yet complete. The Board has completed work on above-ground facilities and is actively working on below-ground facilities, with an expected completion date of October 2000. Risk prioritization methodologies can be applied to above- and below-ground facilities.

28.49 The second part of the recommendation called for the Board to formalize its environmental inspection procedures and improve documentation. The Board reported that it has reviewed and approved 13 safety and environmental procedures to date and will develop additional ones dealing with pipeline crossing and emergency response. The Board has hired additional safety and environmental specialists.

The National Energy Board reported that it has reviewed and approved 13 safety and environmental procedures to date and will develop additional ones dealing with pipeline crossing and emergency response.

28.50 The Board revised its related regulations (Onshore Pipeline Regulations) (OPR-99) in 1999 to make them less prescriptive and more goal-oriented. Goal-oriented regulation involves, among other things, requiring pipeline companies to adopt and record stringent maintenance procedures and to keep detailed records of what they do. With changes in technology, coupled with detailed maintenance, potential problem areas can be identified in time, and preventive measures taken to replace worn-out or other defective items.

28.51 The Board believes that the revised regulations will provide for additional flexibility and efficiency, timely adoption of improved operational and safety techniques, and increased emphasis on risk assessment and management systems. The regulations increased the focus on operations and maintenance activities and added a requirement for the regulated companies to conduct audits and inspections of their activities to ensure compliance.

28.52 The risks associated with each system or pipeline are unique. The new regulations require the companies to identify and address the specific risks of the systems. The adequacy and effectiveness of the methods employed by companies will be assessed through the Board audits. Because the new regulations are less prescriptive for how the company is to operate a safe pipeline, this may increase the related risks. The Board ensures that pipelines are safe by approving the construction and including conditions as required, reviewing safety and other manuals and programs, conducting inspections and audits, investigating incidents, making recommendations accordingly and following up on these conditions and recommendations.

28.53 While the Board continues to improve its systems and practices to perform these activities, we noted that it has not assessed the health and safety risks in making the regulations less prescriptive and whether these risks are adequately addressed and resources are used cost effectively.

Human resource management

28.54 The Board developed a three-year strategic plan that formed the foundation for human resource changes. Although the Board has met the milestones set out in its response to the original recommendation, it still has several related projects in progress. Some of these projects will help to complete the intent of the recommendation.

Cost recovery

28.55 After discussions with its stakeholders, the Board decided to make no major changes to the current regulations.

Performance reporting

28.56 The Board has made good progress and completed most of its commitments to the 1998 recommendation. It continues to fine-tune its measures for performance indicators.

28.57 The Board currently collects incident-related data from the companies it regulates. Under the revised regulations, it has undertaken to develop more useful key performance indicators for safety and environment performance. It is anticipated that the data will be collected directly from pipeline companies and a set of policies and procedures will be developed to that effect. It is expected that the performance measures will focus more on outcomes and impacts than activities. The plan is to complete this project during 2000-01. It will be important to limit the number of indicators and to differentiate between external reporting needs and internal performance monitoring.

The National Energy Board plans to complete the performance indicators project during 2000-01, focussing more on outcomes and impacts than activities.

Report of the
Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6

5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry

6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter

15 Health Canada – First Nations Health: Follow-up

Other Observations

16 Follow-up of Recommendations in Previous Reports

17 Other Audit Observations

Volume 3 – December 2000

Chapter

Matters of Special Importance – 2000

Foreword and Main Points

18 Governance of Crown Corporations

19 Reporting Performance to Parliament: Progress Too Slow

20 Managing Departments for Results and Managing Horizontal Issues for Results

21 Post-Secondary Recruitment Program of the Federal Public Service

22 Development of the Universal Classification Standard: A Follow-up

23 Information Technology: Acquisition of Goods and Services

Protecting Health and Safety

24 Federal Health and Safety Regulatory Programs

25 Canadian Food Inspection Agency – Food Inspection Programs

26 Health Canada – Regulatory Regime of Biologics

27 Canadian Nuclear Safety Commission – Power Reactor Regulation

28 Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

29 Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

30 Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

31 Fisheries and Oceans – Fleet Management

32 National Defence – Defence Support Productivity: A Progress Report

Other Observations and Appendices

33 Follow-up of Recommendations in Previous Reports

34 Other Audit Observations

35 Sustainable Development Strategy for the Office of the Auditor General

Report of the
Auditor General of Canada
to the House of Commons

Chapter 29
Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

© Minister of Public Works and Government Services Canada 2000
Cat. No. FA1-2000/3-29E
ISBN 0-662-29588-9
Copies françaises aussi disponibles

Chapter 29

Treasury Board Secretariat

The Government's Annual Contracting Activity Report — 1998

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 29-5

Introduction 29-7

Reporting on federal contracts 29-7
Parliamentary interest 29-10
Focus of the audit 29-10

Observations and Recommendations 29-10

Validity of Data 29-10
Standing offers are not contracts 29-13
Acquisition/credit card payments do not belong in a report on contracting activity 29-14
Amendments and segregated reporting 29-14

Reliability of Data 29-16

Classification of Contracts 29-16

Completeness of Data 29-17
Contracting by Crown corporations is generally omitted from the Report 29-19
Some contracts are excluded for security reasons 29-19

Preparing and Compiling Data 29-19

Key Concerns About Compilation 29-20
Data on various contracts did not appear in the government-wide contracting database 29-20
The "negative confirmation" process does not function well 29-20
PWGSC's internal review catches some omissions 29-21
Inaccuracies in the data input process were evident 29-21

Transparency in Reporting 29-22

Relevance of Data 29-23

Conclusion 29-26

Subsequent Event 29-27

About the Audit 29-28

Inserts

The Need for More Accurate and Relevant Information on Contracting Activity — Observations by Standing Committees of Parliament 29-11

Amendments and the Need for Better Information on Them — Observations by the Standing Committee on Government Operations 29-17

Page

Exhibits

29.1 Federal Expenditures and Acquisitions, 1998–99 29-8
29.2 Summary of Acquisition/Credit Cards, Amendments, Standing Offers and Contracting Activity, 1998 29-12
29.3 Standing Offers, 1998 29-14
29.4 Acquisition Card Transactions, 1998 29-15
29.5 Amendments (Net), 1998 29-15
29.6 Amendments for Contracts Let by Public Works and Government Services Canada, 1998 29-16
29.7 Results of Substantive Tests — Sample 29-18
29.8 Definition of Solicitation Procedures 29-22
29.9 Assessing Sole-Sourcing Using an Advance Contract Award Notice (ACAN) Against the Criteria 29-24
29.10 Justification for Not Soliciting Bids 29-26

Appendices

A. The Treasury Board Secretariat's Annual Contracting Activity Report, 1998 29-31
B. Government Policy on Contracting 29-35

Treasury Board Secretariat

The Government's Annual Contracting Activity Report — 1998

Main Points

29.1 This chapter examines the Treasury Board Secretariat's Annual Contracting Activity Report for the calendar year 1998. The Report provides Canadians with an annual statistical summary of the number and value of contracts let pursuant to the Government Contracts Regulations (GCR) and the government's contracting policy. The value of the reported contracts in 1998 accounted for $13.4 billion (including NATO Flying Training in Canada Program of $2.99 billion) or more than one third of the $35.7 billion cost of running the government.

29.2 The systems for gathering data for the Report capture most of what is required and have the potential to provide the base for a good and useful document. However, our audit found significant deficiencies in the Report with respect to validity, reliability, transparency and relevance. (We define these terms later.)

29.3 Specifically, the deficiencies that we noted in the 1998 Report include the following:

- **Validity.** Transactions relating to contract amendments, standing offers and credit card payments are included with information on primary contracting activities. The information on these transactions should be segregated in the Report.
- **Reliability.** The audit found that information on the number and dollar value of contracts was incomplete. For example, the Report did not include at least $320 million worth of contracts that should have been reported. We also found that information on the classification of contracts was unreliable.
- **Transparency.** The 1998 Report does not provide enough explanatory information or links to it to enable the unfamiliar reader to understand how the Report was prepared and the meaning of key terms used in presenting the data.
- **Relevance.** As was the case for previous reports, the 1998 Report was not published until more than a year after the end of the reporting period, thereby making its relevance questionable. In addition, it does not contain enough information in particular areas to meet the needs of the public and parliamentarians. These needs have been identified by parliamentary committees.

29.4 The available data do not permit us to quantify the effect of several of these deficiencies on the Report; nor do the data permit us to assess the interaction among them. Accordingly, we cannot assess the extent to which these deficiencies affect the overall fairness of presentation of the Report.

Background and other observations

29.5 The need for fairly presented and relevant statistical information on the government's contracting activities has been a long-standing concern of the Office of the Auditor General. We first raised the issue in 1982 and more recently in reports in 1991 and 1997. Concerns about the lack of appropriate information on contracting were major elements of the 1995 and 1997 Reports of the Standing Committee of the House of Commons on Government Operations. In 1999, the Public Accounts Committee also expressed concerns about the information and recommended that future reports be audited.

29.6 We recommend that the Treasury Board Secretariat improve the usefulness of the Annual Contracting Activity Report by segregating information on amendments, standing offers and credit card payments. We also recommend that the Report provide the reasons for directing a contract to a particular supplier. The Treasury Board Secretariat should also develop quality assurance systems for the data used to develop the Report. In addition, the Secretariat needs to direct attention to resolving the conceptual and presentation issues that we have identified. Major improvements can be achieved with some additional effort and attention to statistical reporting by the procurement community.

As noted in "Subsequent Event" at the end of the chapter (paragraph 29.76), the Treasury Board Secretariat has already taken steps to address a number of our concerns. The Secretariat's responses to our recommendations indicate that it is actively addressing some and giving what it believes to be appropriate consideration to the rest.

Introduction

Reporting on federal contracts

29.7 The Treasury Board Secretariat's Annual Contracting Activity Report presents summary statistical information on contracting activity carried out by departments and agencies pursuant to the Government Contracts Regulations (GCRs) and the government's contracting policy. The Report is a relatively short document. It presents information in tabular form and contains virtually no explanatory or contextual material. Information includes the dollar value and actual number of contracts awarded (both above and below $25,000). Contracts are summarized in tables by commodity type (goods, services or construction) and the solicitation procedure used. Another table presents departmental information on contracting in less detail. The entire 1998 Report is presented in Appendix A of this chapter for easy reference.

29.8 Contracts for goods, services and construction account for $13.4 billion — more than one third of the cost of running the government. Information on individual contracts is available from the Contracts Canada Web site, which currently includes most contracts issued by Public Works and Government Services Canada (PWGSC). However, that information is not easily aggregated. Information on payments made by the government through contracts and other purchase arrangements for goods, services and construction can be found in the detailed schedules of the Public Accounts of Canada. Given that there is no other comprehensive summary source of information on contracting in the government, the Annual Contracting Activity Report is the only means through which Parliament, suppliers and the public can begin to track activity in this area.

29.9 The Treasury Board Secretariat sets the requirements, priorities, tone and level of importance given to this report. It is also accountable for monitoring the activities of departments and works with them on how to address the observations and recommendations of the Auditor General, parliamentary committees and internal audits. Public Works and Government Services Canada carries out procurement on behalf of departments in addition to the direct purchasing done by them. A section of PWGSC is also responsible for gathering all the information on procurement (from sources in PWGSC or the departments) and compiling it as required by the Treasury Board Secretariat.

29.10 The government carries out and reports on most of its operations on a fiscal-year basis, with a year-end of 31 March. Contract reports were prepared on a fiscal-year basis up to and including 1994-95. However, procurement reports under the international trade agreements were required on a calendar-year basis. To simplify procurement reporting, the Treasury Board Secretariat approved the change in the reporting period to calendar year, beginning with the 1995 Report.

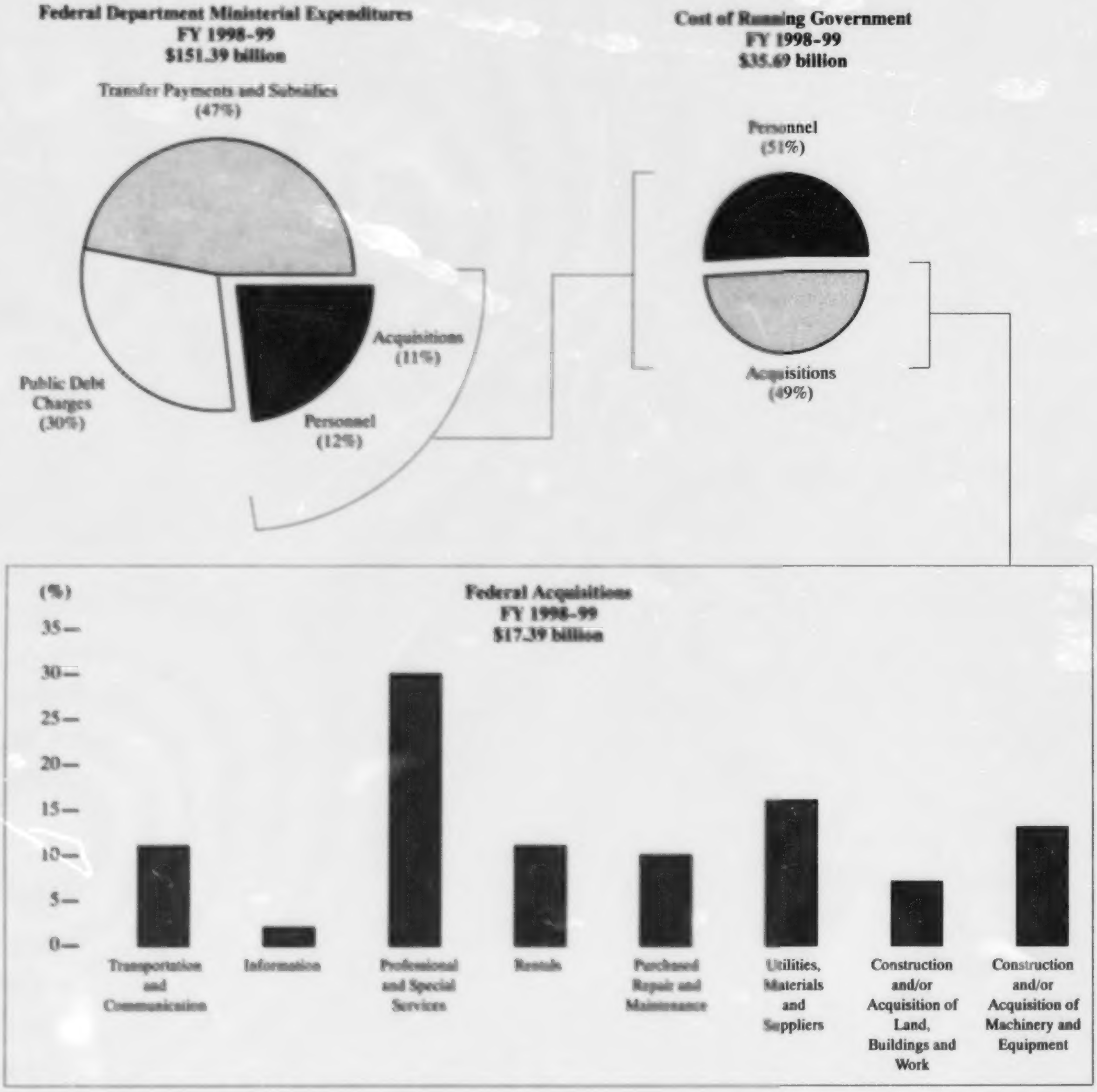
29.11 **Contracting in perspective.** While federal expenditures for fiscal year 1998-99 exceeded $150 billion, the total cost of running the government (excluding transfer payments and interest) was approximately $35.7 billion, according to the Public Accounts. Of this amount, the government payroll accounted for more than half, or $18.3 billion. The remaining $17.4 billion consisted largely of payments for goods, services and construction (see Exhibit 29.1). Most of this procurement is carried out using contracts. However, while some of these purchases (for example, travel and accommodation) are for goods and services, they are not considered as being contracting activity for the purposes of this report.

29.12 The federal acquisitions shown in Exhibit 29.1 cannot be reconciled with data in the 1998 Report because some of these contracts represent commitments for expenditures extending over several years;

Contracts for goods, services and construction account for $13.4 billion — more than one third of the cost of running the government.

Exhibit 29.1

Federal Expenditures and Acquisitions, 1998–99



Source: Public Accounts of Canada, 1998–99

Exhibit 29.1 (Cont'd)

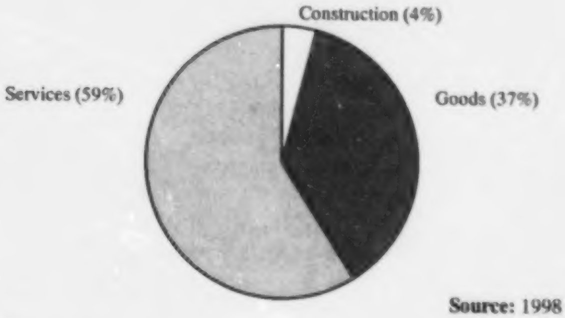
Federal Expenditures and Acquisitions, 1998–99

Partial explanation for Differences between Public Accounts of Canada figures and Annual Contracting Activity Report figures

Standard Object	($ millions)	Part of standard object - not included in the Treasury Board Secretariat's Annual Contracting Activity Report	($ millions)
02 Transportation and Communication	1,920	Travel and Accommodations	1,042
03 Information	379		
04 Professional and Special Services	5,161		
05 Rentals	1,833	Real Property - Buildings	991
06 Purchased Repair and Maintenance	1,780		
07 Utilities, Materials and Suppliers	2,791	Utilities	278
08 Construction and/or Acquisition of Land, Buildings and Work	1,192	Purchase of Land and Buildings	1,059
09 Construction and/or Acquisition of Machinery and Equipment	2,334		
Subtotal	**17,390**		**3,370**
(less exclusions)	3,370		
Estimated Expenditures – 1998-99	**14,020**		

Source: Public Accounts of Canada, 1998-99

Treasury Board Secretariat Annual Contracting Activity Report
1998 (Calendar Year)
$13.43 billion



Source: 1998 Annual Contracting Activity Report

there are also differences in reporting periods and classification between the Public Accounts and the Contracting Activity Report. However, on average, the value of contracts let in any given year is usually a fairly stable proportion of the actual annual expenditure on goods, services and construction.

29.13 Coverage of the Contracting Activity Report. Although the Report is primarily statistical in nature, it does present one key contracting performance indicator: the percentage of contracts let competitively. The government supports a broad cross section of objectives for contracting, such as meeting operational

Exhibit 29.1 (Cont'd)

Federal Expenditures and Acquisitions, 1998–99

Partial explanation for Differences between Public Accounts of Canada figures and Annual Contracting Activity Report figures

Standard Object	($ millions)	Part of standard object - not included in the Treasury Board Secretariat's Annual Contracting Activity Report	($ millions)
02 Transportation and Communication	1,920	Travel and Accommodations	1,042
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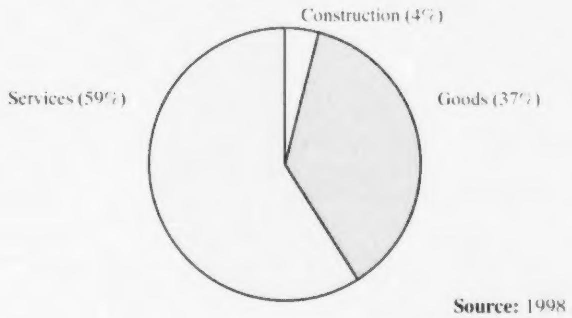
Treasury Board Secretariat Annual Contracting Activity Report
1998 (Calendar Year)
$13.43 billion



Source: 1998 Annual Contracting Activity Report

there are also differences in reporting periods and classification between the Public Accounts and the Contracting Activity Report. However, on average, the value of contracts let in any given year is usually a fairly stable proportion of the actual annual expenditure on goods, services and construction.

29.13 Coverage of the Contracting Activity Report. Although the Report is primarily statistical in nature, it does present one key contracting performance indicator: the percentage of contracts let competitively. The government supports a broad cross section of objectives for contracting, such as meeting operational needs, getting best value, meeting socio-economic needs, treating potential suppliers fairly and achieving transparency (see Appendix B).

29.14 Competition in and of itself is not a sufficient condition for meeting these objectives. However, when used in good faith, it does provide some assurance that the objectives are being met. To that end, the Government Contracts Regulations and the various trade agreements all place a very strong emphasis on competition. They define competition as the preferred means of contracting. They allow contracts to be directed to one supplier only in exceptional and well-defined circumstances. Because of this, the percentage of contracts let competitively is a good summary performance measure. The Treasury Board Secretariat and Public Works and Government Services Canada have publicly stated that an important element of good contracting is competition.

The Treasury Board Secretariat and Public Works and Government Services Canada have publicly stated that an important element of good contracting is competition.

Parliamentary interest

29.15 In recent years, Parliament has shown considerable interest in having reliable and valid information on contracting activity to enable it to evaluate how government contracting policy is being implemented. The shaded insert on page 29-11 presents extracts, related to reporting on contracting activity, from the Reports of the Standing Committee on Government Operations and the Public Accounts Committee. Those committees have made a number of recommendations in this area, which have yet to be implemented. Officials have informed us that the Treasury Board Secretariat is currently considering some changes that may respond in part to those recommendations.

29.16 In particular, the Public Accounts Committee recommended in 1999 that the government's report on contracting activity be audited. This audit responds to that recommendation and to the need to provide information to Parliament on other matters raised in the various committees' recommendations related to contracting activity information.

Focus of the audit

29.17 This chapter examines the Treasury Board Secretariat's Annual Contracting Activity Report for the calendar year 1998. The Secretariat publishes a summary on its Web site of the information in two government-wide schedules. It also provides further details in a schedule that breaks down this information by department. The activities are shown by two classes of values: contracts for less than $25,000 and contracts for $25,000 and above. While the number of contracts issued for less than $25,000 is relatively high, these contracts represent only about 10.5 percent or $1.4 billion by value.

29.18 We wanted to determine the extent to which the Report provides an accurate summary of contracting activity. Specifically, we wanted to assess the validity, reliability, transparency and relevance of the Report, particularly in light of the expressed needs of parliamentarians. The available data do not permit us to quantify the effect of several of these deficiencies on the Report; nor do the data permit us to assess the interaction among them. Accordingly, we cannot assess the extent to which these deficiencies affect the overall fairness of presentation of the Report. Additional details on the audit are presented in **About the Audit** at the end of the chapter.

Observations and Recommendations

Validity of Data

29.19 "Validity" of data refers to the extent to which the data represent what they purport to represent and do not mingle different types of activity. Where

The Need for More Accurate and Relevant Information on Contracting Activity — Observations by Standing Committees of Parliament

Standing Committee on Government Operations — December 1995 and April 1997

The Committee spent a number of years conducting hearings on contracting. In its report of December 1995, it found that the overall reporting framework for all contracting activity needed to be reviewed and significantly revised by the Treasury Board in order to provide accurate statistical data that was relevant to the needs of parliamentarians.

In April 1997, the Committee again highlighted a need for accurate and relevant information. More specifically it stated:

"Throughout the course of its hearings, our Committee was faced constantly with the lack of statistical information about contracting activity in government. Witnesses from both the private and public sectors voiced the same concerns. TBS and PWGS Canada officials agreed that the existing standardised reporting framework for every department had to be improved so that a proven and accurate database for all contracting activity in the government be established by an acceptable target date. Our Committee believes that TB should place a high priority on this course of action."

"Our Committee has found the TB Annual Contracting Activity Report is a useful means of informing Parliament of a significant segment of annual public expenditures (over $7 billion on 1994-95). It has enabled Treasury Board ministers and officials to evaluate trends in government contracting activity, competitiveness as well as compliance with TB contracting policies and regulations."

"For this annual report to be more useful for parliamentary committees review, our Committee respectfully requests that consideration be given to improving the format and presentation of the data so that parliamentarians may better understand the justification for the variances in contracting activity by department and agency. Brief explanations for non-competitive contracting over $25,000, contract amendments, and other significant variances would improve transparency and greatly assist the committee. Furthermore, in keeping with TB's performance reporting, the tabling of the Contracting Activity Report should be regularized in the fall of each year."

The Committee recommended that the Treasury Board:

a) "in conjunction with PWGS Canada and other departments, continue to improve a standardised reporting framework, so that an accurate database for all contracting activity in the government will be established;

b) place a high priority on eliminating information gaps in government contracting activity by requesting data from departments on competitive and non-competitive contracts, sole-source contracts, contract amendments and justifications;

c) place a high priority on issuing an annual report to Parliament on government contracting activity on a timely and regular basis."

Standing Committee on Public Accounts — May 1999 and June 2000

In its report dated May 5, 1999 addressing the Auditor General of Canada's December 1998 Report, Chapter 26 Contracting for Professional Services: Selected Sole-Source Contracts, the Committee made a number of recommendations, including the following:

Recommendation 1:

"That Treasury Board Secretariat begin immediately to adhere to Section 5.1 of its Contracting Policy by:

a) Issuing a report on contracting at least on an annual basis, if not more frequently. Data contained in these reports must be audited;

b) Requiring all departments and agencies awarding contracts and/or amendments to submit annual reports to the Treasury Board Secretariat on all contracting activities;

c) Evaluating departmental compliance with contracting policies and level of competitive contracting; and

d) Conducting periodic reviews of contracts for services of individuals, including those for less than $5,000. The results of these reviews must be included in Treasury Board Secretariat's Contracting Activity Report."

Recommendation 5:

"That Treasury Board Secretariat encourage departments to include specific references to their contracting activities in their annual Performance Reports beginning with those reports issued for the period ending 31 March 1999."

The Treasury Board Secretariat has advised that Section 5.1 of its contracting policy requires that entities shall report such data to the Secretariat; there is no legislative requirement to make this information public. The reporting requirement began with the 1991-92 fiscal year. All the years since 1991-92 are now being posted in summary on its Web site.

The Public Accounts Committee in its report, dated June 2000, dealt with our November 1999 Report, Chapter 30, Sole-Source Contracting for Professional Services – Using Advance Contract Award Notices. In this report, the Committee made the following recommendations on modifications that it would like to see incorporated in the Report:

4. "That Treasury Board Secretariat monitor departmental review of challenges to Advance Contract Award Notices and begin reporting the results accompanied by detailed explanations showing why challenges were either excepted or denied in its Annual Contracting Activity Reports beginning with the report for 2001.

5. That Treasury Board Secretariat cease its practice of deeming sole-source contracts posted in Advance Contract Award Notices as competitive until the recommendations made by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts with regard to sole-source contracts have been fully implemented and it can provide reasonable assurance that all existing requirements related to the circumstances under which sole source contracts may be awarded have been satisfied."

Exhibit 29.2

Summary of Acquisition/Credit Cards, Amendments, Standing Offers and Contracting Activity, 1998

All Departments and Agencies Subject to Government Contracts Regulations

1998 - Total Value of Contract Awards

Value Class	Solicitation Procedure*	As Filed Total		Acquisition/Credit Cards Total		Amendments (Net) Total		Standing Offers Total		Contracting Activity Total	
		($,000)	(%)	($,000)	(%)	($,000)	(%)	($,000)	(%)	($,000)	(%)
Contracts below $25,000	Competitive	521,774	37.05	147,911	46.66	19,112	36.02	32,234	75.57	322,517	32.40
	ACANs	14,872	1.06			10,124	19.09	81	0.19	4,667	0.47
	Non-Competitive	871,496	61.89	169,086	53.34	23,810	44.89	10,340	24.24	668,260	67.13
	Subtotal	1,408,142	100.00	316,997	100.00	53,046	100.00	42,655	100.00	995,444	100.00
Contracts $25,000 and above	Competitive	6,165,857	51.27			1,138,956	58.42	1,057,657	79.25	3,969,244	45.40
	ACANs	1,813,426	15.08			196,652	10.09	2,212	0.17	1,614,562	18.47
	Non-Competitive	4,046,756	33.65			614,010	31.49	274,699	20.58	3,158,047	36.13
	Subtotal	12,026,039	100.00			1,949,618	100.00	1,334,568	100.00	8,741,853	100.00
All Contracts	Competitive	6,687,631	49.78	147,911	46.66	1,158,068	57.82	1,089,891	79.13	4,291,761	44.07
	ACANs	1,828,298	13.61			206,776	10.33	2,293	0.17	1,619,229	16.63
	Non-Competitive	4,918,252	36.61	169,086	53.34	637,820	31.85	285,039	20.70	3,826,307	39.30
Total		13,434,181	100.00	316,997	100.00	2,002,664	100.00	1,377,223	100.00	9,737,297	100.00

1998 - Total Number of Contracts

Value Class	Solicitation Procedure*	As Filed		Acquisition Cards		Amendments		Standing Offers		Total Adjusted	
		#	(%)	#	(%)	#	(%)	#	(%)	#	(%)
Contracts below $25,000	Competitive	550,998	36.16	419,490	37.95			3,056	77.17	128,452	31.00
	ACANs	578	0.04					6	0.15	572	0.14
	Non-Competitive	972,064	63.80	685,886	62.05			898	22.68	285,280	68.86
	Subtotal	1,523,640	100.00	1,105,376	100.00			3,960	100.00	414,304	100.00
Contracts $25,000 and above	Competitive	13,023	64.20					3,044	87.55	9,979	59.37
	ACANs	3,606	17.78					13	0.37	3,593	21.38
	Non-Competitive	3,655	18.02					420	12.08	3,235	19.25
	Subtotal	20,284	100.00					3,477	100.00	16,807	100.00
All Contracts	Competitive	564,021	36.53	419,490	37.95			6,100	82.02	138,431	32.11
	ACANs	4,184	0.27					19	0.26	4,165	0.97
	Non-Competitive	975,719	63.20	685,886	62.05			1,318	17.72	288,515	66.92
Total		1,543,924	100.00	1,105,376	100.00			7,437	100.00	431,111	100.00

* See Exhibit 29.8 for definition of solicitation procedures.

Source: 1998 Annual Contracting Activity Report
Data supplied by Public Works and Government Services Canada and the Treasury Board Secretariat

different types of activity are important, the information on them should be segregated or posted in separate schedules. In this case, the data in the Annual Contracting Activity Report represent contracting activity carried out pursuant to the Government Contracts Regulations and the government's contracting policy during the reporting period. Accordingly, we would expect that:

- data on primary contracts would be distinguished from data on amendments; and
- data on standing offers and credit card payments, which are not contracts, would be segregated from information on primary contracts in the Report.

29.20 Our review of validity of data focussed on the three types of transactions mentioned above: standing offers, acquisition cards and amendments (see Exhibit 29.2).

Standing offers are not contracts

29.21 In the 1998 Report, data on standing offers are included and data on the call-ups pursuant to them are excluded. Combining data on standing offers with contracts is not appropriate. A standing offer is a non-binding agreement between the federal government and a potential supplier. It is not a contract within the context of the Government Contracts Regulations. In that agreement, the supplier agrees to supply at a fixed price the specified goods or services up to a maximum amount, if and when the government needs them. A contract arises only when there is a call-up against the standing offer, at which time a contract for the quantity and delivery is struck between the government and the supplier.

29.22 Because standing offers are not contracts, data relating to them should be shown separately — not included with data on actual contracts. Combining the two types of data in effect overstates contracting activity, resulting in reported data on contracting activity that are invalid and unreliable. The dollar-value effect can be significant. For example, data from PWGSC indicated that in 1998 the Department had included more than $1.3 billion in standing offers in the Contracting Activity Report for amounts greater than $25,000.

29.23 Because standing offers are not contracts, the value attached to a given standing offer represents only an estimate of a future need. In fact, some standing offers never result in any call-ups against them. However, in the Report, a standing offer (for example, for $25,000) for which no call-ups have been issued is still reported as representing $25,000 worth of contracting activity. We even noted some instances of "double reporting" in which the standing offer and the call-ups against it were included in the data.

Some standing offers never result in any call-ups against them.

29.24 Exhibit 29.3 presents some information on the number and dollar value of standing offers in 1998. The full effect of including activity related to the $1.3 billion value of standing offers in the Report cannot be assessed because there are no reliable and comprehensive data on the actual contracts resulting from call-ups against standing offers on a government-wide basis. What is missing from the Report is the information on the number and value of contracts issued pursuant to a standing offer. However, given the current state of the available data, the magnitude of this material omission cannot reliably be estimated. As with other contracts, the information necessary to report on call-ups related to standing offers should be retained by the issuing authority and reported to the Treasury Board Secretariat on the same basis as are other contracts. We also note that the North American Free Trade Agreement (NAFTA) reporting requirements impose a statutory obligation on the government to gather the data on call-up contracts.

A standing offer is a non-binding agreement between the federal government and a potential supplier. It is not a contract within the context of the Government Contracts Regulations.

The 1998 Annual Contracting Activity Report included over one million credit card payments amounting to approximately $300 million.

Acquisition/credit card payments do not belong in a report on contracting activity

29.25 Acquisition/credit cards are issued to staff on behalf of federal departments and agencies to pay for small-value purchases. The acquisition card was a government initiative that the Treasury Board Secretariat launched in December 1991 as a convenient method of procuring and paying for goods and services (within the level of delegated procurement authority) where it is efficient, economical and operationally feasible to do so.

29.26 The 1998 Annual Contracting Activity Report included, as part of the information on contracts under $25,000, over one million credit card payments amounting to approximately $300 million. In our view, acquisition card payments are not contracts as defined in the government's contracting policy and are subject to a separate policy requirement. As such, information on them should be segregated in the Report. As with standing offers, if sufficiently reliable and complete information on this type of activity can be compiled, it could be usefully presented in a note or as a separate schedule in future reports. Some segregated information on acquisition card payments is given in Exhibit 29.4.

Amendments and segregated reporting

29.27 Contracts may be amended in various ways, which may increase or decrease their dollar value. The 1998 Report shows that the net value of all amendments entered into in the reporting period was just over $2 billion. A segregated display of the information on amendments in the Report is presented in Exhibit 29.5.

29.28 Amendments are a form of contracting activity, and therefore they should be included in the Contracting Activity Report. However, they are a very different type of activity from the original contracts to which they relate. Therefore, they should be shown in a separate

Exhibit 29.3

Standing Offers, 1998

		Number of Standing Offers		Value of Standing Offers	
Value Class	**Solicitation Procedure**	**Number**	**Percent of Total Number**	**Value ($,000)**	**Percent of Total Value**
Standing Offers below $25,000	Competitive	3,056	77.17	$32,234	75.57
	ACANs	6	0.15	$81	0.19
	Non-Competitive	898	22.68	$10,340	24.24
	Subtotal	3,960	100.00	$42,655	100.00
	Proportion	53.25%		3.1%	
Standing Offers $25,000 and above	Competitive	3,044	87.55	$1,057,657	79.25
	ACANs	13	0.37	$2,212	0.17
	Non-Competitive	420	12.08	$274,699	20.58
	Subtotal	3,477	100.00	$1,334,568	100.00
	Proportion	46.75%		96.9%	
All Standing Offers	Competitive	6,100	82.02	$1,089,891	79.13
	ACANs	19	0.26	$2,293	0.17
	Non-Competitive	1,318	17.72	$285,039	20.70
Total		**7,437**	**100.00%**	**$1,377,223**	**100.00%**

Source: Data supplied by Public Works and Government Services Canada

schedule of the Report. This would make them more visible and would provide the level of detail needed to make the information on amendments more useful. For example, it would be useful to display the total value of upward and downward amendments separately. Data on amendments for the current year and prior years should also be presented (see shaded insert on page 29-17).

29.29 Exhibit 29.6 presents 1998 information for amendments entered into by PWGSC, using its Automated Buyer Environmental system (ABE). ABE covers more than 90 percent of the contracts let by PWGSC on behalf of departments. As the Exhibit shows, most of the amending activity relates to contracts that were let in prior years.

29.30 The Treasury Board Secretariat should segregate data on standing offers, acquisition/credit card transactions and amendments from the schedule on primary contracting activities in the Annual Contracting Activity Report.

29.31 The Treasury Board Secretariat should examine the feasibility of gathering and reporting data on standing offer call-up contracts, with the intent of both improving the Report and meeting the government's trade reporting obligation.

29.32 Provided that reliable and complete information can be compiled on acquisition/credit card transactions, the Treasury Board Secretariat should present that information in a separate schedule in the Report.

29.33 With respect to amendments, the Treasury Board Secretariat should report separate information on increases and decreases in value, by current year and prior years. Such information should be included in a separate schedule in the Report.

Treasury Board Secretariat's response: *The Treasury Board Secretariat has implemented a number of changes in its 1999 Purchasing Activity Report (previously known as the Contracting Activity Report) consistent with the Auditor General's recommendations. These changes supplement the extensive information on contracting available through Contracts Canada* (http://www.contractscanada.gc.ca), *the government's statutory reports to Parliament, as well as internal audits and*

Exhibit 29.4

Acquisition Card Transactions, 1998

Value Class	Solicitation Procedure	Number of Transactions	(%) of Total Number
Contracts below $25,000	Competitive	419,490	37.95
	ACANs		
	Non-Competitive	685,886	62.05
	Subtotal	1,105,376	100.00

Source: Data supplied by the Treasury Board Secretariat

Exhibit 29.5

Amendments (Net), 1998

Value Class	Solicitation Procedure	Value (Net) ($ 000)	(%) of Total Value
Amendments below $25,000	Competitive	$19,112	36.02
	ACANs	$10,124	19.09
	Non-Competitive	$23,810	44.89
	Subtotal	$53,046	100.00
Amendments $25,000 and above	Competitive	$1,138,956	58.42
	ACANs	$196,652	10.09
	Non-Competitive	$614,010	31.49
	Subtotal	$1,949,618	100.00
All Amendments	Competitive	$1,158,068	57.82
	ACANs	$206,776	10.33
	Non-Competitive	$637,820	31.85
Total		**$2,002,664**	**100.00%**

Source: 1998 Annual Contracting Activity Report
Data supplied by Public Works and Government Services Canada

The 1998 Annual Contracting Activity Report included over one million credit card payments amounting to approximately $300 million.

Acquisition/credit card payments do not belong in a report on contracting activity

29.25 Acquisition credit cards are issued to staff on behalf of federal departments and agencies to pay for small-value purchases. The acquisition card was a government initiative that the Treasury Board Secretariat launched in December 1991 as a convenient method of procuring and paying for goods and services (within the level of delegated procurement authority) where it is efficient, economical and operationally feasible to do so.

29.26 The 1998 Annual Contracting Activity Report included, as part of the information on contracts under $25,000, over one million credit card payments amounting to approximately $300 million. In our view, acquisition card payments are not contracts as defined in the government's contracting policy and are subject to a separate policy requirement. As such, information on them should be segregated in the Report. As with standing offers, if sufficiently reliable and complete information on this type of activity can be compiled, it could be usefully presented in a note or as a separate schedule in future reports. Some segregated information on acquisition card payments is given in Exhibit 29.4.

Amendments and segregated reporting

29.27 Contracts may be amended in various ways, which may increase or decrease their dollar value. The 1998 Report shows that the net value of all amendments entered into in the reporting period was just over $2 billion. A segregated display of the information on amendments in the Report is presented in Exhibit 29.5.

29.28 Amendments are a form of contracting activity, and therefore they should be included in the Contracting Activity Report. However, they are a very different type of activity from the original contracts to which they relate. Therefore, they should be shown in a separate

Exhibit 29.3

Standing Offers, 1998

		Number of Standing Offers		Value of Standing Offers	
Value Class	**Solicitation Procedure**	**Number**	**Percent of Total Number**	**Value ($,000)**	**Percent of Total Value**
Standing Offers below $25,000	Competitive	3,056	77.17	$32,234	75.57
	ACANs	6	0.15	$81	0.19
	Non-Competitive	898	22.68	$10,340	24.24
	Subtotal	3,960	100.00	$42,655	100.00
	Proportion	53.25%		3.1%	
Standing Offers $25,000 and above	Competitive	3,044	87.55	$1,057,657	79.25
	ACANs	13	0.37	$2,212	0.17
	Non-Competitive	420	12.08	$274,699	20.58
	Subtotal	3,477	100.00	$1,334,568	100.00
	Proportion	46.75%		96.9%	
All Standing Offers	Competitive	6,100	82.02	$1,089,891	79.13
	ACANs	19	0.26	$2,293	0.17
	Non-Competitive	1,318	17.72	$285,039	20.70
Total		7,437	100.00%	**$1,377,223**	100.00%

Source: Data supplied by Public Works and Government Services Canada

Exhibit 29.4

Acquisition Card Transactions, 1998

Value Class	Solicitation Procedure	Number of Transactions	(%) of Total Number
Contracts below $25,000	Competitive	419,490	37.95
	ACANs		
	Non-Competitive	685,886	62.05
	Subtotal	1,105,376	100.00

Source: Data supplied by the Treasury Board Secretariat

Exhibit 29.5

Amendments (Net), 1998

Value Class	Solicitation Procedure	Value (Net) ($ 000)	(%) of Total Value
Amendments below $25,000	Competitive	$19,112	36.02
	ACANs	$10,124	19.09
	Non-Competitive	$23,810	44.89
	Subtotal	$53,046	100.00
Amendments $25,000 and above	Competitive	$1,138,956	58.42
	ACANs	$196,652	10.09
	Non-Competitive	$614,010	31.49
	Subtotal	$1,949,618	100.00
All Amendments	Competitive	$1,158,068	57.82
	ACANs	$206,776	10.33
	Non-Competitive	$637,820	31.85
Total		**$2,002,664**	**100.00%**

Source: 1998 Annual Contracting Activity Report
Data supplied by Public Works and Government Services Canada

schedule of the Report. This would make them more visible and would provide the level of detail needed to make the information on amendments more useful. For example, it would be useful to display the total value of upward and downward amendments separately. Data on amendments for the current year and prior years should also be presented (see shaded insert on page 29-17).

29.29 Exhibit 29.6 presents 1998 information for amendments entered into by PWGSC, using its Automated Buyer Environmental system (ABE). ABE covers more than 90 percent of the contracts let by PWGSC on behalf of departments. As the Exhibit shows, most of the amending activity relates to contracts that were let in prior years.

29.30 The Treasury Board Secretariat should segregate data on standing offers, acquisition/credit card transactions and amendments from the schedule on primary contracting activities in the Annual Contracting Activity Report.

29.31 The Treasury Board Secretariat should examine the feasibility of gathering and reporting data on standing offer call-up contracts, with the intent of both improving the Report and meeting the government's trade reporting obligation.

29.32 Provided that reliable and complete information can be compiled on acquisition/credit card transactions, the Treasury Board Secretariat should present that information in a separate schedule in the Report.

29.33 With respect to amendments, the Treasury Board Secretariat should report separate information on increases and decreases in value, by current year and prior years. Such information should be included in a separate schedule in the Report.

Treasury Board Secretariat's response: *The Treasury Board Secretariat has implemented a number of changes in its 1999 Purchasing Activity Report (previously known as the Contracting Activity Report) consistent with the Auditor General's recommendations. These changes supplement the extensive information on contracting available through Contracts Canada* (http://www.contractscanada.gc.ca), *the government's statutory reports to Parliament, as well as internal audits and* *information from government Web sites. In the 1999 Report, segregated information is provided on amendments and acquisition card transactions. The Secretariat, in close co-operation with Public Works and Government Services Canada and key departments and agencies, will examine the feasibility of expanding its work on standing offers.*

Reliability of Data

29.34 In this audit, we refer to reliability of data as the degree to which the process for gathering and compiling data produces correct and complete information. For the purposes of this audit, we have tested the reliability of data for the extent to which:

- contracts have been properly classified (competitive, advance contract award notice or non-competitive); and
- data on the number and dollar value of awarded contracts are complete and accurate — that is, all contracts (and only those contracts) that should appear in the Report are included.

29.35 We have concerns about the reliability of data in the two areas noted above. Certain reliability problems can be linked to the process for preparing and compiling the data, which we discuss in the section beginning at 29.48.

Classification of Contracts

29.36 In carrying out our substantive testing, we looked in detail at 590 contracts with a total value of about $7 billion. The contracts were drawn from a universe of some 20,000 contracts, processed either by PWGSC or other departments, with a value of about $10 billion, exclusive of amendments. Our sample of 590 contracts accounted for such a high proportion (about 70 percent) of the total value of $10 billion because 89 of them were very large contracts, representing a total value of more than $6 billion. This figure includes a contract for the NATO Flying Training in Canada Program valued at $2.99 billion.

29.37 In reviewing the 590 contracts, we wanted to determine the extent to which they had been classified correctly, so that readers of the Report could assess the extent of competitive versus non-competitive contracting. It is important to be able to make this assessment, given that openness and

Exhibit 29.6

Amendments for Contracts Let by Public Works and Government Services Canada, 1998

	Current Year Amendment Value ($ 000)	Original Value of Current Year Contracts Amended ($ 000)	Percent	Original Value of Prior Year Contracts Amended	Prior Year Amendments ($ 000)	Total Amendments ($ 000)
Increase in Value	$176,703	$1,177,325	15	(information	$1,785,547	$1,962,250
Number of Amendments	1,934			not available)	3,498	5,432
Decrease in Value	-$49,473	$303,770	-16		-$125,434	-$174,907
Number of Amendments	624				785	1,409
Amendments Net	$127,230		8.6		$1,660,113	$1,787,343
Total Value		$1,481,095				

(Excluding NATO Flying Training in Canada Program)

Note: 1998 contracting activity = $9,737,304
($25,000 and above)

Source: Data supplied by Public Works and Government Services Canada

competition are so central to government contracting policy.

29.38 To carry out our testing, we divided the population into two major groups — contracts for $10 million and over and those under $10 million. For the $10 million and over group, we tested the entire population. This represented contracts worth in total over $6 billion. We found that $292 million in contracts for $10 million and over had been misclassified in terms of the type of competition used.

29.39 Our sample of the balance of the population involved 501 contracts with a value of $895 million, representing a population with a value of about $3.8 billion. Our testing found that $126 million of the contracts in the sample had been misclassified; this led to a best estimate, based on the sample result, that in this segment of the population about $520 million worth of contracts had been wrongly classified.

29.40 By far, the most frequent error lay in the classification of contracts as having been let using a "traditional competitive" approach. The term appears to have been as unclear to many of the preparers of the information as it would be to the users. As a result, many contracts that were let using the electronic bidding system were misclassified as being "traditional competitive".

29.41 Our testing concentrated on whether or not the classification was correct, and therefore we are not prepared to make an estimate of the potential impact of these errors on the competition percentage (see Exhibit 29.7).

Completeness of Data

29.42 If the Report is to be considered a source of reliable information on contracting activity, that information must be complete. It must include all contracting activity carried out pursuant to the Government Contracts Regulations (GCRS). If the data do not include all contracts that should appear in the Report, their reliability is compromised.

Amendments and the Need for Better Information on Them — Observations by the Standing Committee on Government Operations

In a preliminary report dated December 1996, the Chairman of the Standing Committee on Government Operations recommended the following:

"6) Amendments – Given the alarming rise in amendments to government contracts, this Committee recommends:

- a) Each department should have a senior management committee to review all amendments.
- b) Amendments should be justified by the contractor to the department responsible for the contract.
- c) Amendments should be broken down into sub-categories. For example: cost overruns, legitimate contract add-ons, etc..., with the aim of significantly reducing unnecessary cost overruns.
- d) These amendment sub-categories should have varying tolerances to be determined by a central agency. The Committee recommends that 10% be used as a guideline for specific cost overruns."

Amendments were also included in a Standing Committee report dated April 1997.

"Growth in Contract Amendments"

22. "Our Committee is also concerned over the increasing use of contract amendments in most government departments and agencies. In 1994-95, for contracts $25,000 and above, it was reported by TBS to our Committee that the number of amendments to contracts had not declined since the previous year and the value of amendments had decreased only from $1.83 billion to $1.15 billion. This represents about 21% of $5.6 billion worth of original contracts.

23. "Our committee shares the Treasury Board concern over the large volume of contract amendments. In many cases, the amendments are necessary and justified; in others, cost overruns have occurred as a result of weak project management and poor financial controls. Our committee believes that tighter monitoring of contract performance should be enforced by Treasury Board and by the contracting authority within departments and agencies."

Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

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Exhibit 29.7

Results of Substantive Tests — Sample

We took a total sample of 590 contracts. Of these, 466 were issued by Public Works and Government Services Canada and 124 by departments directly.

Comparison of actual to reported	**VALUE**								
Solicitation Procedure	**Contracts issued by PWGSC =>$10 million**				**Contracts issued by departments =>$10 million**				**Total**
Hierarchy of Solicitation Procedures	C	H	L	$ Millions	C	H	L	$ Millions	$ Millions
Open Bidding	1,345	-	-	1,345	238	14	-	252	1,597
Traditional Competitive	559	15	211	785	-	-	-	0	785
Advanced Contract Award Notice	677	40	-	717	-	-	-	0	717
Traditional Non-Competitive	3,123	-	12	3,135	-	-	-	0	3,135
Subtotal Value	5,704	55	223	5,982	238	14	-	252	6,234
Percent of Total Value	95.4	0.9	3.7	100	94.4	5.6	-	100	
	Other contracts issued by PWGSC =>$25,000				**Other contracts issued by departments =>$25,000**				
Open Bidding	336	22	-	358	93	1	-	94	452
Traditional Competitive	61	11	64	136	30	7	3	40	176
Advanced Contract Award Notice	202	10	1	213	21	1	-	22	235
Traditional Non-Competitive	9	-	6	15	17	-	-	17	32
Subtotal Value	608	43	71	722	161	9	3	173	895
Percent of Value	84.2	6.0	9.8	100	93.1	5.2	1.7	100	
TOTAL VALUE	6312	98	294	6,704	399	23	3	425	7,129
Percent of Total Value	94.1	1.5	4.4	100	93.9	5.4	0.7	100	

Comparison of actual to reported	**NUMBER**								
Solicitation Procedure	**Contracts issued by PWGSC =>$10 M**				**Contracts issued by departments =>$10 M**				**Total**
Hierarchy of Solicitation Procedures	C	H	L	Number	C	H	L	Number	Number
Open Bidding	44	-	-	44	2	1	-	3	47
Traditional Competitive	13	1	5	19	-	-	-	0	19
Advanced Contract Award Notice	18	2	-	20	-	-	-	0	20
Traditional Non-Competitive	2	-	1	3	-	-	-	0	3
Subtotal Number	77	3	6	86	2	1	-	3	89
Percent of Number	89.5	3.5	7.0	100	66.7	33.3		100	
	Other contracts issued by PWGSC =>$25,000				**Other contracts issued by departments =>$25,000**				
Open Bidding	191	11	-	202	42	2	-	44	246
Traditional Competitive	32	4	25	61	28	3	7	38	99
Advanced Contract Award Notice	93	6	1	100	16	1	-	17	117
Traditional Non-Competitive	14	-	3	17	22	-	-	22	39
Subtotal	330	21	29	380	108	6	7	121	501
Percent of Number	86.9	5.5	7.6	100	89.3	5.0	5.9	100	
TOTAL NUMBER	407	24	35	466	110	7	7	124	590
Percent of Total Number	87.3	5.2	7.5	100	88.8	5.6	5.6	100	

C= Correct as to actual level of competition
H= Higher as to actual level of competition
L= Lower as to actual level of competition

Contracting by Crown corporations is generally omitted from the Report

29.43 As noted earlier, the Annual Activity Contracting Report is intended to cover only those contracts let under the Government Contracts Regulations. Except for the National Capital Commission (NCC), Crown corporations do not fall under these regulations. Accordingly, the NCC should report its contracting activity, but it has never done so. The Treasury Board Secretariat has advised us that the Commission has now begun to report the required information, starting with calendar year 1999. Conversely, we found that another Crown corporation, the National Film Board, did report, even though it is specifically excluded from reporting requirements as per the GCRs.

29.44 It is worth noting that as the continued evolution of alternative service delivery unfolds, the issue of what is the population of entities necessary to ensure a comprehensive overview of the government's contracting activity will become more important. For example, in late 1999 Revenue Canada became the Canada Customs and Revenue Agency and subsequently no longer came under the GCRs. In 1998, according to the Report, Revenue Canada initiated over $280 million of contracting activity (primary contracts, amendments, standing offers and acquisition card payments).

Some contracts are excluded for security reasons

29.45 The contracting activities of the Canadian Security Intelligence Service (CSIS) are governed by the Government Contracts Regulations. Strictly speaking, they should therefore be included in the Report. However, the Treasury Board Secretariat has agreed not to include them for security reasons. Similarly, a number of other contracts let by PWGSC are omitted from the 1998 Report for security reasons.

29.46 Contrarily, The Public Accounts of Canada includes financial data for security-sensitive entities. These data are appropriately combined with those of related entities to ensure that security is not compromised. In our opinion, the Report could adopt a similar approach in reporting those contracts currently excluded for security reasons. Doing so would create a more accurate picture of the government's true contracting activity.

29.47 The Treasury Board Secretariat should include in the Annual Contracting Activity Report all contracting activity in the reporting period subject to the Government Contracts Regulations and the government's contracting policy. Where security considerations require it, the information should be appropriately aggregated with that of other entities.

Treasury Board Secretariat's response: *The Treasury Board Secretariat is committed to ensuring that the Purchasing Activity Report is open and transparent and is reflective of the government's policy framework. The Secretariat will review the existing Report to ensure that it remains consistent with the government's national security requirements.*

The 1999 Purchasing Activity Report addresses the minor omissions identified through this audit.

The National Capital Commission should report its contracting activity, but it has never done so.

Preparing and Compiling Data

29.48 The information in the Report is only as reliable as the data on which it is based. We looked at the extent to which the data on about $10 billion (excluding amendments) worth of contracts over $25,000, let in 1998, were complete. Our review focussed on the $1.2 billion reported by some 60 departments and the $8.9 billion that PWGSC had let for itself and on behalf of other departments.

29.49 The following briefly describes the basic steps involved in compiling data for the Report:

- First, departments collect data on the contracts they have issued themselves (including data on any amendments) according to instructions from the Treasury Board Secretariat on what data to include and how to report them.

- Second, PWGSC adds departmental data to its own data on contracts that it has let itself and on behalf of other departments. PWGSC's data are captured by two main systems. These systems vary in the quality of data they produce. (We note that PWGSC is moving toward using only the better of the two systems. This should result in better quality data in the future).

- Third, PWGSC rolls up departmental data and data from its own two systems into a single database — the Government-Wide Procurement Reporting System.

- Fourth, PWGSC asks departments to confirm the accuracy and completeness of the roll up. It then sends the data to the Treasury Board Secretariat. It is important that senior levels in departments be aware of what information is being reported on their contracting activity and how it was derived, prior to the Report being submitted to ministers.

- Fifth, the Secretariat adds data on those credit card transactions not yet reported and formats the data into the Annual Contracting Activity Report.

Key Concerns About Compilation

Data on various contracts did not appear in the government-wide contracting database

29.50 Our preliminary tests showed that a number of significant contracts that had been let in 1998 had not been included in the Government-Wide Procurement Reporting System. For example, we found that a contract for $27 million that PWGSC had let on behalf of another department was missing from the government-wide system. (As noted earlier, this system produces the data on which the Report is based.) PWGSC attributed this omission to delays in transferring data between two systems. Despite such delays, the data are eventually captured; however, if the data are not sent to the government-wide system in time, they will not be reflected in the Report.

We found at least $320 million (about 2.4 percent) in missed contracts that should have been included in the 1998 Report.

29.51 To quantify the effect of such delays, we used the most current information (30 June 2000) available on contracts let by PWGSC in 1998. We found at least $320 million (about 2.4 percent) in missed contracts that should have been included in the 1998 Report.

29.52 PWGSC records a number of contracts manually, some of which are high-value. However, the Department has no central registry or system that contains data on every contract that it lets. Accordingly, the Department could not provide us with assurance on the completeness (reliability) of any list of contracts it might produce.

The "negative confirmation" process does not function well

29.53 As previously noted, each department is asked to confirm the contracting data relating to it. If departments do not request any changes or note any omissions, PWGSC considers silence to be a confirmation. In our view, this "negative confirmation" approach is not effective. We did not specifically audit departmental systems for capturing data on contracts. Therefore we cannot accurately quantify their effect on the overall reliability of contracting data. However, other audit work carried out the our Office and the lack of response by departments to the negative confirmation process led us to believe that system deficiencies may exist.

PWGSC's internal review catches some omissions

29.54 We found that PWGSC, following its review of the data, had advised departments (after confirmation had been requested) that 37 contracts, valued at more than $3 billion, had been omitted from the Report. These were contracts that PWGSC had carried out on behalf of various departments. One contract was for $2.99 billion (NATO Flying Training in Canada Program). The other 36 had a total value of almost $50 million. No department had notified PWGSC that any of these contracts had been omitted from the Report; furthermore, there is no requirement for any departmental official to sign off on the accuracy of the contracting activity data submitted to PWGSC.

Inaccuracies in the data input process were evident

29.55 The quality and accuracy of input directly affect the reliability of data and, by extension, the Report. We examined a sample of 590 contracts to test the accuracy of the coding or input for the classification of contracts. We chose classification because, as noted earlier, how contracts are classified is essential to assessing the extent of competition in the government contracting process. We found more than 10 percent of the contracts were misclassified.

29.56 The reliability issue is not new. We raised it in the 1991 Report of the Auditor General and again in 1997. In those reports, we reported that the systems capture basic contract information, including the contract-award method (competitive or non-competitive). This information allows the tabulation and reporting of statistics on the number of competitive and non-competitive procurements. However, the systems do not accurately capture the reasons for awarding non-competitive contracts, and the reliability of the internal information is questionable.

29.57 In 1998 Public Works and Government Services Canada accounted for almost $9 billion (excluding amendments) of the total value of contracts reported. During the past few years, three internal audits focussed on the integrity of the procurement data collection systems. These audits did not test for completeness but concentrated on how data are captured. They all concluded that except for certain "tombstone" data (dates and contract values), much of the statistical information cannot be relied upon.

29.58 The Department has indicated that improvements made to its quality control procedures, combined with other system changes, should permit it to improve the quality and timeliness of its data.

29.59 The Treasury Board Secretariat should establish quality assurance standards for the preparation of data submitted for inclusion in the Annual Contracting Activity Report. These standards should include specific parameters for the completeness and accuracy of the data.

29.60 The Treasury Board Secretariat should require that when an entity submits its data for inclusion in the Annual Contracting Activity Report, the Senior Financial Officer for the entity include a letter of representation. This letter would give assurance to the Treasury Board Secretariat that the data have been prepared in accordance with the instructions, the required quality assurance procedures have been applied with a satisfactory result, and the submitted data contain no material errors.

Treasury Board Secretariat's response: *The Treasury Board Secretariat is working with departments and agencies to examine ways to streamline and improve how statistics on contracting activity are*

There is no requirement for any departmental official to sign off on the accuracy of the contracting activity data submitted to Public Works and Government Services Canada.

compiled and will review the appropriateness of the existing reporting requirements and the current reporting standard provided in the Procurement Reporting Guide.

Consistent with Results for Canadians, *sign-off at an appropriate level of delegations within the department will be a requirement for future reports.*

The Annual Contracting Activity Report does not contain any descriptive text to provide a context for the information and how to interpret it.

Transparency in Reporting

29.61 Transparency in reporting relates to how clear and understandable the information in the Report is to its readers. Transparent reporting results in more openness and provides a better understanding of why decisions are made. Moreover, it contributes to improving future performance, since Parliament and the public have access to the data needed to evaluate the implementation of contracting policy.

29.62 The Report does not contain any descriptive text to provide a context for the information and how to interpret it. For example, the Report classifies contracts according to four solicitation procedures: open bidding, traditional competitive, advance contract award notice (ACAN) and traditional non-competitive (see Exhibit 29.8). However, there is no explanation of these classifications and their relationships to the contracting process (particularly the element of competition) in the Report itself. The only complete description of them we found was in the instructions given by the Treasury Board Secretariat to those who prepare the data. A clear understanding of these terms is important to anyone who wants to understand and draw conclusions from the data.

29.63 In our view, to be more transparent and useful, we would expect the Report to:

- define its purpose;
- explain what is being reported;
- indicate how it was prepared (time frame, relevant rules and regulations, etc.);
- explain the concept of contract value (original value of contract including GST and excluding amendments); and
- elaborate on the headings and provide more definitions.

Exhibit 29.8

Definition of Solicitation Procedures

Open Bidding (Competitive)	Solicitations that meet the requirements of section 7(a) of the Government Contracts Regulations (GCRs) — A contracting authority shall solicit bids by giving public notice, in a manner consistent with generally accepted practices, of a call for bids respecting a proposed contract. The most frequent way of doing this is by posting it on MERX, an electronic tendering service.
Traditional Competitive	Solicitations that meet the requirements of section 7(b) of the GCRs — A contracting authority shall solicit bids by inviting bids on a proposed contract from suppliers on the suppliers' list. Source lists are used to identify potential bidders.
Advanced Contract Award Notice (ACAN)	Directed contracts, which meet one of the four exceptions allowed under Section 6 of the GCRs — ACANs are posted on MERX to allow other potential suppliers to challenge the decision before the contract is let.
Traditional Non-Competitive	Directed contracts, which meet one of the four exceptions allowed under Section 6 of the GCRs — They are not posted prior to the award of the contract and potential suppliers have little opportunity to launch a challenge.

Source: Procurement Reporting Guide

compiled and will review the appropriateness of the existing reporting requirements and the current reporting standard provided in the Procurement Reporting Guide.

Consistent with Results for Canadians, *sign-off at an appropriate level of delegations within the department will be a requirement for future reports.*

The Annual Contracting Activity Report does not contain any descriptive text to provide a context for the information and how to interpret it.

Transparency in Reporting

29.61 Transparency in reporting relates to how clear and understandable the information in the Report is to its readers. Transparent reporting results in more openness and provides a better understanding of why decisions are made. Moreover, it contributes to improving future performance, since Parliament and the public have access to the data needed to evaluate the implementation of contracting policy.

29.62 The Report does not contain any descriptive text to provide a context for the information and how to interpret it. For example, the Report classifies contracts according to four solicitation procedures: open bidding, traditional competitive, advance contract award notice (ACAN) and traditional non-competitive (see Exhibit 29.8). However, there is no explanation of these classifications and their relationships to the contracting process (particularly the element of competition) in the Report itself. The only complete description of them we found was in the instructions given by the Treasury Board Secretariat to those who prepare the data. A clear understanding of these terms is important to anyone who wants to understand and draw conclusions from the data.

29.63 In our view, to be more transparent and useful, we would expect the Report to:

- define its purpose;
- explain what is being reported;
- indicate how it was prepared (time frame, relevant rules and regulations, etc.);
- explain the concept of contract value (original value of contract including GST and excluding amendments); and
- elaborate on the headings and provide more definitions.

Exhibit 29.8

Definition of Solicitation Procedures

Open Bidding (Competitive)	**Solicitations that meet the requirements of section 7(a) of the Government Contracts Regulations (GCRs) — A contracting authority shall solicit bids by giving public notice, in a manner consistent with generally accepted practices, of a call for bids respecting a proposed contract. The most frequent way of doing this is by posting it on MERX, an electronic tendering service.**
Traditional Competitive	**Solicitations that meet the requirements of section 7(b) of the GCRs — A contracting authority shall solicit bids by inviting bids on a proposed contract from suppliers on the suppliers' list. Source lists are used to identify potential bidders.**
Advanced Contract Award Notice (ACAN)	**Directed contracts, which meet one of the four exceptions allowed under Section 6 of the GCRs — ACANs are posted on MERX to allow other potential suppliers to challenge the decision before the contract is let.**
Traditional Non-Competitive	**Directed contracts, which meet one of the four exceptions allowed under Section 6 of the GCRs — They are not posted prior to the award of the contract and potential suppliers have little opportunity to launch a challenge.**

Source: Procurement Reporting Guide

29.64 We would also expect the Report to present a range of other explanatory text such as:

- explanations of contract award processes being used — open bidding, traditional competitive, ACAN or traditional non-competitive;
- definitions of commodity types;
- explanations on comparing current information with information from prior years;
- a list of any departments or agencies that ought to have been included that were not; and
- supplementary schedules on amendments, acquisition cards, standing offers, justification for sole-sourcing of ACANs and traditional and non-competitive contracts, and analysis of performance year to year.

29.65 The Treasury Board Secretariat has agreed and has reflected most of these elements in its preliminary 1999 Report.

Relevance of Data

29.66 To be relevant to decision makers such as Parliament and its committees and other interested parties, it is important that the Report be timely and contain the required information in a clear and concise manner. As this is a report on contracting activity, it should contain information specifically related to the level of competition and the reasons for not soliciting bids. Other information on standing offers, acquisition cards and amendments should be presented either in notes to the main schedules of the Report or in separate schedules.

29.67 **Timeliness.** In the past, reports have often been considerably out of date when they were published. The 1998 Report was no exception. It was not available until well over a year after the end of the period being reported. These delays have been a significant irritant to parliamentarians. The Secretariat is working with departments and agencies through the Treasury Board Advisory Committee on Contracting to develop procedures that will streamline the production of future reports. It has also taken some other steps toward improving the substance and timeliness of the Report.

29.68 **Data on the degree of competitiveness.** As discussed earlier, the percentage of contracts let competitively is an important measure of government contracting performance and a matter in which Parliament has expressed ongoing interest. The summary and detailed schedules of the Report present this percentage; however, it differs between the schedules. In the summary schedules, the competitiveness percentage is correctly calculated. It reflects only those contracts let using the open bidding and traditional competitive methods of competition (based on a source list of potential contractors). Sole-source contracts and ACANs are reported as a separate percentage. Sole-source contracts are correctly labelled as non-competitive. However, in the detailed schedule, which breaks out the information by reporting entity, the competitive percentage includes sole-source contracts that were let following the posting of an ACAN. As we indicated in our November 1999 Report:

> In compiling its statistics on contracting performance for 1996 and 1997, the Treasury Board Secretariat began the practice of treating contracts awarded after posting an ACAN as "competitive" for some statistical reporting purposes. In our view, this practice is misleading. First, as can be seen from our observations, the contracts are sole-source contracts — not the result of an open, competitive tendering process. Posting a notice of the intent to issue a sole-source contract is not a substitute for competition.

The Treasury Board Secretariat began the practice of treating contracts awarded after posting an advance contract award notice (ACAN) as "competitive" for some statistical reporting purposes. In our view, this practice is misleading.

Exhibit 29.9

Assessing Sole-Sourcing Using an Advance Contract Award Notice (ACAN) Against the Criteria

ACANs: In Chapter 30 of our November 1999 Report, we concluded that the ACANs associated with the sole-source contracts added transparency to directed contracting because ACANs are publicly advertised. This compares with the nearly 40 percent of sole-source contacts that are let without any public notice. But we still maintain that such contracts should not be included with competitive contracts when quoting the level of competitiveness.

Our 1999 chapter identified that departments improperly used ACANs and only six percent of the 50 ACANs were posted on MERX for the required 15 calendar days.

In our 1999 audit on ACANs, we published the following results:

	Met (%)	Not Met (%)
The decision to sole-source was in accordance with one of the four exceptions in the regulations.	11	89

Issue	Competitive Situation	Sole-Sourcing ACAN
Openness	Call for tenders is available to all involved at the same time.	The award notice is posted only after arrangements with the chosen supplier are substantially complete.
Perception of Openness	All qualified suppliers are welcome.	This is a type of "negative-option". "We've made our decision that no one else can do this, challenge it, if you will."
Time	The time varies with the complexity of the situation, but all bidders have the same amount of time to prepare and submit their bids.	There is a 15-day minimum period; however, this can often be as few as nine working days. The selected supplier has no formal constraint on the time it has to prepare its offer.
Information on Requirements	The tendering documents contain a detailed statement of requirements and specify how parties' requirements are to be presented. All parties receive the same information.	A very brief statement of requirements is often included in the ACAN. The department may or may not supply additional information. The chosen supplier has ongoing access to the statement and frequently drafts it.
Information on Assessment	The basis for assessment must be clearly stated in the tendering documents. All parties must receive the same information, and they have an equal chance to shape their tender to maximize the assessment.	There is no assessment information. No assessment scheme is developed a *priori*. The challenger is not furnished in advance with information on how the validity of the challenge will be assessed. It also has little ability to strategically shape its submission.
Clarification/Additional Information	All bidders have an equal right to ask questions and seek clarification. All bidders must be given equal access to the questions raised and the answers given.	There is no requirement in this area.
Assessment of Bids	All bids must be fairly assessed against the pre-established criteria set out in the call for proposals using the pre-established assessment methodology.	There is no requirement for a comparative assessment of the proposal of the challenger and the chosen supplier. No requirement exists for pre-established criteria or for a pre-established assessment methodology.

Source: Office of the Auditor General

29.69 The Public Accounts Committee discussed this observation at its hearing on our November Report. It recommended that the government stop treating sole-source contracts accompanied by an ACAN as competitive in its statistical reports. Our position on the issue remains unchanged; ACANs should not be combined with competitive contracts when calculating the competitiveness percentage. The reasons for our position are summarized in Exhibit 29.9. The effect of the current presentation in the Report is to seriously distort — that is, overstate — the extent of competitive contracting for many entities.

29.70 In examining the data, we found two instances of this distorting effect on the statistics. In both instances, contracts had been directed to a sole supplier. Government regulations required that this supplier be awarded these contracts. Even if another potential supplier existed, it could not have challenged this award or received the business. Nevertheless, an ACAN was posted for each of these contracts. Exhibit 29.9 compares the characteristics of a competitive situation. It is clear from this exhibit that these ACANs do not meet the test of competitiveness according to our criteria as listed in the left-hand column. We note that the Treasury Board Secretariat considers the contracts resulting from these ACANs to be competitive. As a result, the value of non-competitive contracts was reduced by $288 million, and the value of competitive contracts was increased by a corresponding amount. Adjusting the data for these two contracts would reduce the competitive contracting percentage for 1998 for the department involved from 47 percent to 43 percent.

29.71 The U.S. and the European Community generally report similar information on competition, although the levels of detail vary. Comparison of levels of competitive contracting using the 1998 Report indicates that, while Canada does not have the highest rate of competition, percentages for all three jurisdictions are comparable. A proper comparison cannot be carried out until all the significant deficiencies in the Report have been addressed.

29.72 **Reasons for sole-sourcing**. The reasons for sole-sourcing are highly relevant to anyone who is interested in knowing how well government contracting policy is being implemented with respect to competitiveness. For instance, parliamentarians have regularly expressed interest in receiving this information. In addition, the Standing Committee on Government Operations recommended in 1997 that the Treasury Board Secretariat place a high priority on eliminating information gaps in government contracting activity by requesting data from departments on competitive and non-competitive contracts, sole-source contracts, and the reasons for sole-sourcing. This information is important so that evaluations can be carried out to identify problems or issues that need to be addressed in implementing contracting policy. Although departments do collect certain information on the reasons, it is not presented in the Report. Exhibit 29.10 provides an example of the type of information that could be usefully presented in future reports.

29.73 **The Treasury Board Secretariat should require that departments report which of the four justifications specified in the Government Contracts Regulations was used for not soliciting bids when using advance contract award notices and traditional non-competitive contracts.**

29.74 **The Treasury Board Secretariat should include information on the Government Contracts Regulations justification used for not soliciting bids in a schedule of the Annual Contracting Activity Report.**

Treasury Board Secretariat's response: *The Purchasing Activity Report is used to provide a clear picture on competitive and* *non-competitive contracting processes as set out in the Contracting Policy. The government sees tools such as internal audits and reviews as a key way of assessing consistency with the competitive and non-competitive provisions of the government's policy and regulations within government departments and agencies. Internal audits are efficient and provide value-added information not achievable through data collection and are therefore the primary focus of the Secretariat's efforts.*

In addition to direct queries to departments and agencies on individual contracts, interested parties may contact Contracts Canada (http://www.contractscanada.gc.ca) *for information on the justifications for not calling bids for approximately 85 percent of the contracts awarded in 1998, as these contracts are awarded by Public Works and Government Services Canada.*

The Secretariat will examine the business case for the above-noted recommendations with a view to identifying cost-effective ways to modify existing systems across other government departments and agencies for collecting information on government contracting, to move from 85 to 100 percent reporting on these additional details.

The 1998 Annual Contracting Activity Report requires significant improvements with respect to each of the criteria areas we examined — validity, reliability, transparency and relevance.

Conclusion

29.75 **Overall assessment**. Our audit found that the 1998 Annual Contracting Activity Report requires significant improvements with respect to each of the criteria areas we examined — validity, reliability, transparency and relevance. At the same time, we found that the basic systems required to develop a report that does not have these deficiencies are already in place. Some effort and a modest investment of resources will be needed to achieve this result. However, if the effort and investment of resources are made, the resulting information will support the production of a high-quality report on contracting activity, enable departmental managers to better manage their responsibilities for contracting, and ultimately support the Modernization of Comptrollership initiative.

Exhibit 29.10

Justification for Not Soliciting Bids

	Solicitation Type					
Justification for Not Soliciting Bids*	**Sole Source with ACAN**		**Sole Source**		**Total**	
	($ 000)	**Percent**	**($ 000)**	**Percent**	**($ 000)**	**Percent**
Exclusive Rights	$1,375,572	85.1	$233,468	53.5	$1,609,040	78.4
National Interest	$175,226	10.8	$119,306	27.3	$294,532	14.4
Extreme Urgency	$7,491	0.5	$23,937	5.5	$31,428	1.5
Low Dollar Value**	$10,524	0.7	$18,846	4.3	$29,370	1.4
None Given	$47,657	2.9	$41,118	9.4	$88,775	4.3
Total	**$1,616,470**	**100.0**	**$436,675**	**100.0**	**$2,053,145**	**100.0**

*These justifications are similar to the four permitted exceptions to solicit bids, outlined in Section 6 of the Government Contracts Regulations.

**It is unclear why this reason was selected as the contracts were all over the $25,000 threshold. It may be because they were under the threshold for the relevant trade agreement.

Source: Public Works and Government Services Canada, based on the original government-wide file. It does not include late contracts, the Canadian Security Intelligence Service or the Nato Flying Training in Canada Program contract.

The 1998 Annual Contracting Activity Report requires significant improvements with respect to each of the criteria areas we examined — validity, reliability, transparency and relevance.

non-competitive contracting processes as set out in the Contracting Policy. The government sees tools such as internal audits and reviews as a key way of assessing consistency with the competitive and non-competitive provisions of the government's policy and regulations within government departments and agencies. Internal audits are efficient and provide value-added information not achievable through data collection and are therefore the primary focus of the Secretariat's efforts.

In addition to direct queries to departments and agencies on individual contracts, interested parties may contact Contracts Canada (http://www.contractscanada.gc.ca) *for information on the justifications for not calling bids for approximately 85 percent of the contracts awarded in 1998, as these contracts are awarded by Public Works and Government Services Canada.*

The Secretariat will examine the business case for the above-noted recommendations with a view to identifying cost-effective ways to modify existing systems across other government departments and agencies for collecting information on government contracting, to move from 85 to 100 percent reporting on these additional details.

Conclusion

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** It is unclear why this reason was selected as the contracts were all over the $25,000 threshold. It may be because they were under the threshold for the relevant trade agreement.

Source: Public Works and Government Services Canada, based on the original government-wide file. It does not include late contracts, the Canadian Security Intelligence Service or the Nato Flying Training in Canada Program contract.

Subsequent Event

29.76 On 3 October 2000, the Treasury Board Secretariat published a preliminary version of its report on contracting activity for 1999. The report is now entitled "1999 Purchasing Activity Report". We have not audited this report and therefore can offer no audit opinion on it. However, the new report does respond positively to many of the issues raised in this chapter, including the following:

- The information on acquisition card purchases is excluded from the schedule on primary contracting.
- The information on amendments is segregated in the schedule and additional information is provided in the notes.
- The Report has extensive explanatory notes addressing most of the issues that we discuss under Transparency in Reporting in the section beginning at paragraph 29.61.
- The data, while not final, are being issued on a preliminary basis and much earlier than were previous reports.

About the Audit

Objective

The objective of this audit was to examine the Treasury Board Secretariat's Annual Contracting Activity Report for 1998 and to report to Parliament on the results of our examination. We assessed the Report for validity, reliability, transparency and relevance.

The available data do not permit us to quantify the effect of several of these deficiencies on the Report; nor do the data permit us to assess the interaction among them. Accordingly, we cannot assess the extent to which these deficiencies affect the overall fairness of presentation of the Report.

Scope

We looked at the quality of the data that departments submitted to Public Works and Government Services Canada and that PWGSC in turn submitted to the Treasury Board Secretariat for its Annual Contracting Activity Report. We also looked at the presentation of the data to assess its usefulness and relevance to readers. In doing so, we focussed on the extent to which the content of the Report reflects the substance and intent of the Government Contracts Regulations. We did not audit any departmental systems for capturing contracting data.

Criteria

Our criteria were derived from:

- an analysis of sections 5 and 6 of the Government Contracts Regulations and their interpretation in the Treasury Board policy;
- previous testimony and proceedings of the Standing Committee on Government Operations, Public Accounts Committee and their various reports since 1995;
- interviews with officials in the Treasury Board Secretariat and in Public Works and Government Services Canada;
- previous chapters on contracting in Reports of the Auditor General of Canada: 1991 – Chapters 18 and 19, 1997 – Chapter 6, 1998 – Chapter 26 and 1999 – Chapter 30; and
- the criteria for the audit of performance information developed by the Office of the Auditor General.

Approach

Contracting activity is carried out directly by departments or through PWGSC. For the two data streams managed by PWGSC, we derived most of our assurance from systems documentation and controls, supplemented by substantive testing.

Because of the widely dispersed data sources from departments, and prior observations during interviews carried out, we determined that post-submission controls are weak. Therefore, we relied mainly on substantive testing for assurance in this area.

Our substantive testing was carried out using a combination of dollar-unit sampling and high-value items. The testing consisted of:

- discussions held with the Treasury Board Secretariat, Public Works and Government Services Canada and a number of departments;
- analysis of documentation provided by the Secretariat and 25 line departments, including PWGSC on its own behalf and acting on behalf of other entities; and
- a survey of documentation supporting the classification by open bidding, traditional competitive, advanced contract award notice (ACAN) and traditional non-competitive approaches for 89 contracts equal to or greater than $10 million and 501 other contracts equal to or greater than $25,000.

The audit sample was identified and selected from the total population. All high-value contracts were chosen. The remainder were selected on the basis of a computer-generated random sampling framework for dollar-unit sampling. The results were adjusted to reflect the sampling design.

The following 25 entities were included in our selection:

Agriculture and Agri-Food Canada, Foreign Affairs and International Trade, Department of Justice, Correctional Service Canada, Natural Resources Canada, National Research Council Canada, Statistics Canada, National Revenue, Superintendent of Financial Institutions, Canadian International Development Agency, Canadian Centre for Management Development, Western Economic Development Canada, Citizenship and Immigration Canada, Canadian Heritage, Public Works and Government Services Canada, Fisheries and Oceans, Health Canada, Environment Canada, Royal Canadian Mounted Police, Transport Canada, Industry Canada, Human Resources Development Canada, National Defence, Canadian Space Agency.

Our audit did not include steps to determine whether the justification claimed for using an ACAN or the traditional non-competitive approach was justified; nor could we determine the appropriateness of using a traditional competitive approach instead of open bidding. Furthermore, we did not assess either the performance or the qualifications of the suppliers. No comments in the chapter should be construed as criticism of any supplier.

Reporting before 1996

In the late 1970s and early 1980s, departments provided a semi-annual report to the Treasury Board Secretariat on contracting for temporary help. In the 1980s, departments also provided an annual report on contracts for consulting and professional services. These requirements continued until April 1989.

In 1990, departments were asked to provide an annual report on contracting activities that replaced the two earlier reports. The result was a more concise report in 1991-92, with streamlining of reporting requirements.

From 1991-92 until 1993-94, departments and agencies, including Supply and Services Canada and Public Works Canada, submitted the information directly to the Treasury Board Secretariat. These reports included the activities of approximately 50 major entities. The exclusion of other federal entities was not considered to have a material impact on what was being reported. All information for the years since 1991-92 has been published on the Internet.

Starting in 1994-95, following the signing of the North American Free Trade Agreement (NAFTA) and the World Trade Organization (WTO) agreement, decisions were made to have PWGSC receive and compile all the data on behalf of the Treasury Board Secretariat that would form the basis of the Report. As Public Works and Government Services Canada was responsible for reporting under the trade agreements and much of the data were common, it made sense that the Department would take on the responsibility to gather and compile the data for the Report.

Recent audit activity by the Office of the Auditor General

Two Reports of the Auditor General further increased Parliament's interest in government contracting. In our December 1998 Report, we published the results of our audit, Contracting for Professional Services: Selected Sole-Source Contracts. This audit was the first of a number of audits on contracting done by departments and agencies.

In our November 1999 chapter, we reported the results of our audit of a sample of some 50 ACANs for services not involving goods, selected from a database maintained by an outside firm (MERX) under contract to PWGSC.

Audit Team

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Appendix A

The Treasury Board Secretariat's Annual Contracting Activity Report, 1998

1998 — All departments and agencies subject to *Government Contracts Regulations*
Total value of contract awards and net amendments ($000) (Note 1)

Contract Type		Goods ($ 000)	(%)	Services ($ 000)	(%)	Construction ($ 000)	(%)	Total ($ 000)	(%)
Contracts below $25,000	Competitive	401,433	46.66	101,039	19.90	19,302	48.22	521,774	37.05
	ACANs	10,379	1.21	4,257	0.84	236	0.59	14,872	1.06
	Non-Competitive	448,508	52.13	402,499	79.26	20,489	51.19	871,497	61.89
	Subtotal	860,320	100.00	507,795	100.00	40,027	100.00	**1,408,142**	100.00
	Proportion							**10.5%**	
Contracts $25,000 and above	Competitive	2,845,760	69.03	2,857,928	38.70	462,169	88.99	6,165,858	51.27
	ACANs	838,090	20.33	958,965	12.99	16,371	3.15	1,813,426	15.08
	Non-Competitive	438,768	10.64	3,567,164	48.31	40,824	7.86	4,046,757	33.65
	Subtotal	4,122,618	100.00	7,384,057	100.00	519,364	100.00	**12,026,039**	100.00
	Proportion							**89.5%**	
All Contracts	Competitive	3,247,193	65.17	2,958,967	37.49	481,471	86.07	6,687,632	49.78
	ACANs	848,469	17.03	963,222	12.21	16,607	2.97	1,828,298	13.61
	Non-Competitive	887,276	17.81	3,969,663	50.30	61,313	10.96	4,918,253	36.61
Total		**4,982,938**	100.00	**7,891,852**	100.00	**559,391**	100.00	**13,434,181**	100.00
Proportions		**37.09%**		**58.74%**		**4.16%**		**100.0%**	

Breakdown:	Contract Awards	11,431,517
	Net Amendments	2,002,664
		$ 13,434,181

Note 1 - The data include acquisition card transactions.

1998 — All departments and agencies subject to *Government Contracts Regulations*
Total value of contract awards and net amendments ($000) (Note 1)
Excluding the service contract for the NATO Flying Training in Canada Program

Contract Type		Goods ($ 000)	(%)	Services ($ 000)	(%)	Construction ($ 000)	(%)	Total ($ 000)	(%)
Contracts below $25,000	Competitive	401,433	46.66	101,039	19.90	19,302	48.22	521,774	37.05
	ACANs	10,379	1.21	4,257	0.84	236	0.59	14,872	1.06
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	ACANs	838,090	20.33	958,965	21.85	16,371	3.15	1,813,426	20.08
	Non-Competitive	438,768	10.64	571,164	13.02	40,824	7.86	1,050,756	11.64
	Subtotal	4,122,618	100.00	4,388,057	100.00	519,364	100.00	**9,030,039**	100.00
	Proportion							**86.5%**	
All Contracts	Competitive	3,247,193	65.17	2,958,967	60.44	481,471	86.07	6,687,631	64.07
	ACANs	848,469	17.03	963,222	19.67	16,607	2.97	1,828,298	17.52
	Non-Competitive	887,276	17.81	973,663	19.89	61,313	10.96	1,922,252	18.42
Total		**4,982,938**	100.00	**4,895,852**	100.00	**559,391**	100.00	**10,438,181**	100.00
Proportions		**47.74%**		**46.90%**		**5.36%**		**100.0%**	

Breakdown:	Contract Awards	8,435,517
	Net Amendments	2,002,664
		$ 10,438,181

Note 1: The data **include** acquisition card transactions, but **exclude** the non-competitive service contract (approved by the Cabinet) valued at $2.996 billion for the NATO Flying Training in Canada Program.

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Appendix A

The Treasury Board Secretariat's Annual Contracting Activity Report, 1998

1998 — All departments and agencies subject to *Government Contracts Regulations*
Total value of contract awards and net amendments ($000) (Note 1)

Contract Type		Goods ($ 000)	(%)	Services ($ 000)	(%)	Construction ($ 000)	(%)	Total ($ 000)	(%)
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	ACANs	838,090	20.33	958,965	12.99	16,371	3.15	1,813,426	15.08
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All Contracts	Competitive	3,247,193	65.17	2,958,967	37.49	481,471	86.07	6,687,632	49.78
	ACANs	848,469	17.03	963,222	12.21	16,607	2.97	1,828,298	13.61
	Non-Competitive	887,276	17.81	3,969,663	50.30	61,313	10.96	4,918,253	36.61
Total		**4,982,938**	100.00	**7,891,852**	100.00	**559,391**	100.00	**13,434,181**	100.00
Proportions		**37.09%**		**58.74%**		**4.16%**		**100.0%**	

Breakdown:	Contract Awards	11,431,517
	Net Amendments	2,002,664
		$ 13,434,181

Note 1 - The data include acquisition card transactions.

1998 — All departments and agencies subject to *Government Contracts Regulations*
Total value of contract awards and net amendments ($000) (Note 1)
Excluding the service contract for the NATO Flying Training in Canada Program

Contract Type		Goods ($ 000)	(%)	Services ($ 000)	(%)	Construction ($ 000)	(%)	Total ($ 000)	(%)
Contracts below $25,000	Competitive	401,433	46.66	101,039	19.90	19,302	48.22	521,774	37.05
	ACANs	10,379	1.21	4,257	0.84	236	0.59	14,872	1.06
	Non-Competitive	448,508	52.13	402,499	79.26	20,489	51.19	871,496	61.89
	Subtotal	860,320	100.90	507,795	100.00	40,027	100.00	**1,408,142**	100.00
	Proportion							**13.5%**	
Contracts $25,000 and above	Competitive	2,845,760	69.03	2,857,928	65.13	462,169	88.99	6,165,857	68.28
	ACANs	838,090	20.33	958,965	21.85	16,371	3.15	1,813,426	20.08
	Non-Competitive	438,768	10.64	571,164	13.02	40,824	7.86	1,050,756	11.64
	Subtotal	4,122,618	100.00	4,388,057	100.00	519,364	100.00	**9,030,039**	100.00
	Proportion							**86.5%**	
All Contracts	Competitive	3,247,193	65.17	2,958,967	60.44	481,471	86.07	6,687,631	64.07
	ACANs	848,469	17.03	963,222	19.67	16,607	2.97	1,828,298	17.52
	Non-Competitive	887,276	17.81	973,663	19.89	61,313	10.96	1,922,252	18.42
Total		**4,982,938**	100.00	**4,895,852**	100.00	**559,391**	100.00	**10,438,181**	100.00
Proportions		**47.74%**		**46.90%**		**5.36%**		**100.0%**	

Breakdown:	Contract Awards	8,435,517
	Net Amendments	2,002,664
		$ 10,438,181

Note 1: The data **include** acquisition card transactions, but **exclude** the non-competitive service contract (approved by the Cabinet) valued at $2.996 billion for the NATO Flying Training in Canada Program.

Appendix A (cont'd)

1998 — All departments and agencies subject to *Government Contracts Regulations*
Total number of contracts (Note 1)

Contract Type		Goods	(%)	Services	(%)	Construction	(%)	Total	(%)
Contracts Below $25,000	Competitive	515,563	37.95	32,556	20.54	2,879	43.99	550,998	36.16
	ACANs	354	0.03	189	0.12	35	0.53	578	0.04
	Non-Competitive	842,655	62.03	125,779	79.34	3,630	55.47	972,064	63.80
	Subtotal	1,358,572	100.00	158,524	100.00	6,544	100.00	**1,523,640**	100.00
	Proportion							**98.69%**	
Contracts $25,000 and Above	Competitive	4,390	67.97	6,831	60.29	1,802	72.22	13,023	64.20
	ACANs	1,663	25.75	1,874	16.54	69	2.77	3,606	17.78
	Non-Competitive	406	6.29	2,625	23.17	624	25.01	3,655	18.02
	Subtotal	6,459	100.00	11,330	100.00	2,495	100.00	**20,284**	100.00
	Proportion							**1.31%**	
All Contracts	Competitive	519,953	38.09	39,387	23.19	4,681	51.79	564,021	36.53
	ACANs	2,017	0.15	2,063	1.21	104	1.15	4,184	0.27
	Non-Competitive	843,061	61.76	128,404	75.60	4,254	47.06	975,719	63.20
Total		**1,365,031**	**100.00**	**169,854**	**100.00**	**9,039**	**100.00**	**1,543,924**	**100.00**
Proportions		**88.41%**		**11.00%**		**0.59%**		**100.0%**	

Note 1: The data include acquisition card transactions.

We have consolidated the figures and changed the format from the Report on the Internet. It does not reflect the revision that incorporates 63 contracts below $25,000 and 100 contracts valued at $25,000 and above.

Source: Excerpt from 1998 Annual Contracting Activity Report.

Appendix A (cont'd)

1998 Annual Contracting Activity Report

	Below $25,000		Contracts $25,000 and above														Above $25,000 and below	
Department and Agency	Sub-total		Electronic Bidding		Trad. Competitive		ACANs		Competitive		Non-Competitive		Sub-total		% Comp.		Grand Total	
	#	$ (000)	#	$(000)	#	$(000)	#	$ (000)	#	$ (000)	#	(000)	#	$(000)	#	(000)	#	(000)
Agriculture and Agri-Food Canada	50,960	27,351	156	43,372	80	20,865	92	16,822	328	81,059	102	6,131	430	87,190	76.3%	93.0%	51,390	114,541
Atlantic Canada Opportunity Agency	2,707	4,264	47	4,406	16	1,304	3	487	66	6,197	5	161	71	6,358	93%	97%	2,778	10,622
Atomic Energy Control Board	399	3,055	7	521	3	208	16	2,264	26	2,993	24	1,114	50	4,107	52%	73%	449	7,162
Auditor General	1,682	5,398	1	482	3	162	0	0	4	644	24	997	28	1,641	14%	39%	1,710	7,039
Canada Information Office	1,216	2,928	1	1,070	20	5,051	0	0	21	6,121	15	785	36	6,906	58%	89%	1,252	9,834
Canada Labour Relations Board	0	0	1	25	0	0	0	0	1	25	0	0	1	25	100%	100%	1	25
Canadian Centre for Management Development	679	1,954	0	0	15	1,059	0	0	15	1,059	7	269	22	1,328	68%	80%	701	3,282
Canadian Centre for Occupational Health & Safety	78	139	2	217	0	0	0	0	2	217	2	3,170	4	3,387	50%	6%	82	3,526
Canadian Food Inspection Agency	25,791	8,399	8	1,137	18	1,714	10	1,295	36	4,146	28	1,343	64	5,489	56%	76%	25,855	13,888
Canadian Heritage	42,121	43,660	136	38,944	143	18,605	29	2,522	308	60,071	79	4,497	387	64,568	80%	93%	42,508	108,228
Canadian Human Rights Commission	1,542	2,165	2	100	3	277	0	0	5	377	0	0	5	377	100%	100%	1,547	2,542
Canadian Intergovernmental Conference Secretariat	1	20	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	20
Canadian International Development Agency	5,477	8,195	278	176,959	86	31,135	54	23,152	418	231,246	60	14,249	478	245,495	87%	94%	5,955	253,690
Canadian International Trade Tribunal	803	1,233	4	490	3	544	0	0	7	1,034	3	95	10	1,129	70%	92%	813	2,362
Canadian Radio-Television & Telecommunications Council	853	1,620	1	220	3	196	0	0	4	416	3	180	7	596	57%	70%	860	2,216
Canadian Space Agency	2,703	7,467	47	226,701	44	18,796	116	41,750	207	287,247	37	9,881	244	297,128	85%	97%	2,947	304,595
Canadian Transportation Agency	892	887	0	0	1	35	0	0	1	35	0	0	1	35	100%	100%	893	922
Citizenship and Immigration	6,256	7,708	58	28,890	20	25,303	19	5,633	97	59,826	10	3,209	107	63,035	91%	95%	6,363	70,743
Civil Aviation Tribunal	273	142	0	0	0	0	0	0	0	0	0	0	0	0	0	0	273	142
Commissioner for Federal Judicial Affairs	310	547	0	0	1	45	0	0	1	45	11	703	12	748	8%	6%	322	1,295
Commissioner of Official Languages	401	838	0	0	0	0	0	0	0	0	1	55	1	55	0%	0%	402	893
Competition Tribunal	178	37	0	0	0	0	0	0	0	0	1	100	1	100	0%	0%	179	137
Correctional Service Canada	113,154	112,948	519	91,479	385	67,033	239	105,274	1,143	263,786	271	33,995	1,414	297,781	81%	89%	114,568	410,729
Emergency Preparedness Canada	7	103	4	200	0	313	0	0	4	513	1	37	5	550	80%	93%	12	653
Environment Canada	40,974	29,577	318	40,684	38	14,605	139	19,057	495	74,346	178	8,209	673	82,555	74%	90%	41,647	112,132
Federal Court of Canada	1,108	1,590	1	30	0	259	1	169	2	458	10	433	12	891	17%	51%	1,120	2,481
Federal Office of Regional Development (Quebec)	660	1,910	18	1,725	1	839	2	118	21	2,682	5	269	26	2,951	81%	91%	686	4,861
Finance	4,461	4,527	10	5,753	7	1,006	12	1,421	29	8,180	15	1,441	44	9,621	66%	85%	4,505	14,148
Fisheries & Oceans	207,801	144,878	376	62,412	847	134,587	186	23,287	1,409	220,286	260	20,015	1,669	240,301	84%	92%	209,470	385,179
Foreign Affairs and International Trade	10,389	24,963	54	30,095	91	36,398	63	14,034	208	80,527	104	6,435	312	86,962	67%	93%	10,701	111,925
Hazardous Materials Information Review Commission	112	18	0	0	0	0	0	0	0	0	0	0	0	0	0	0	112	18
Health Canada	70,456	55,128	99	14,726	61	12,318	196	25,143	356	52,187	258	18,323	614	70,510	58%	74%	71,070	125,638
Human Resources Development Canada	62,661	58,799	68	15,427	76	55,251	160	47,083	304	117,761	108	8,348	412	126,109	74%	93%	63,073	184,908
Immigration and Refugee Board	1,088	3,518	1	146	7	769	0	0	8	915	0	0	8	915	100%	100%	1,096	4,433
Indian & Northern Affairs Canada	26,472	35,494	127	60,620	122	28,785	41	9,701	290	99,106	134	22,750	424	121,856	68%	81%	26,896	157,350

Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

Appendix A (cont'd)

1998 — All departments and agencies subject to *Government Contracts Regulations*
Total number of contracts (Note 1)

Contract Type		Goods	(%)	Services	(%)	Construction	(%)	Total	(%)
Contracts Below $25,000	Competitive	515,563	37.95	32,556	20.54	2,879	43.99	550,998	36.16
	ACANs	354	0.03	189	0.12	35	0.53	578	0.04
	Non-Competitive	842,655	62.03	125,779	79.34	3,630	55.47	972,064	63.80
	Subtotal	1,358,572	100.00	158,524	100.00	6,544	100.00	**1,523,640**	100.00
	Proportion							**98.69%**	
Contracts $25,000 and Above	Competitive	4,390	67.97	6,831	60.29	1,802	72.22	13,023	64.20
	ACANs	1,663	25.75	1,874	16.54	69	2.77	3,606	17.78
	Non-Competitive	406	6.29	2,625	23.17	624	25.01	3,655	18.02
	Subtotal	6,459	100.00	11,330	100.00	2,495	100.00	**20,284**	100.00
	Proportion							**1.31%**	
All Contracts	Competitive	519,953	38.09	39,387	23.19	4,681	51.79	564,021	36.53
	ACANs	2,017	0.15	2,063	1.21	104	1.15	4,184	0.27
	Non-Competitive	843,061	61.76	128,404	75.60	4,254	47.06	975,719	63.20
Total		**1,365,031**	100.00	**169,854**	100.00	**9,039**	100.00	**1,543,924**	100.00
Proportions		**88.41%**		**11.00%**		**0.59%**		**100.0%**	

Note 1: The data include acquisition card transactions.

We have consolidated the figures and changed the format from the Report on the Internet. It does not reflect the revision that incorporates 63 contracts below $25,000 and 100 contracts valued at $25,000 and above.

Source: Excerpt from 1998 Annual Contracting Activity Report.

Appendix A (cont'd)

1998 Annual Contracting Activity Report

	Below $25,000		Contracts $25,000 and above														Above $25,000 and below	
Department and Agency	Sub-total		Electronic Bidding		Trad. Competitive		ACANs		Competitive		Non-Competitive		Sub-total		% Comp.		Grand Total	
	#	$ (000)	#	$(000)	#	$(000)	#	$ (000)	#	$ (000)	#	(000)	#	$(000)	#	(000)	#	(000)
Agriculture and Agri-Food Canada	50,960	27,351	156	43,372	80	20,865	92	16,822	328	81,059	102	6,131	430	87,190	76.3%	93.0%	51,390	114,541
Atlantic Canada Opportunity Agency	2,707	4,264	47	4,406	16	1,304	3	487	66	6,197	5	161	71	6,358	93%	97%	2,778	10,622
Atomic Energy Control Board	399	3,055	7	521	3	208	16	2,264	26	2,993	24	1,114	50	4,107	52%	73%	449	7,162
Auditor General	1,682	5,398	1	482	3	162	0	0	4	644	24	997	28	1,641	14%	39%	1,710	7,039
Canada Information Office	1,216	2,928	1	1,070	20	5,051	0	0	21	6,121	15	785	36	6,906	58%	89%	1,252	9,834
Canada Labour Relations Board	0	0	1	25	0	0	0	0	1	25	0	0	1	25	100%	100%	1	25
Canadian Centre for Management Development	679	1,954	0	0	15	1,059	0	0	15	1,059	7	269	22	1,328	68%	80%	701	3,282
Canadian Centre for Occupational Health & Safety	78	139	2	217	0	0	0	0	2	217	2	3,170	4	3,387	50%	6%	82	3,526
Canadian Food Inspection Agency	25,791	8,399	8	1,137	18	1,714	10	1,295	36	4,146	28	1,343	64	5,489	56%	76%	25,855	13,888
Canadian Heritage	42,121	43,660	136	38,944	143	18,605	29	2,522	308	60,071	79	4,497	387	64,568	80%	93%	42,508	108,228
Canadian Human Rights Commission	1,542	2,165	2	100	3	277	0	0	5	377	0	0	5	377	100%	100%	1,547	2,542
Canadian Intergovernmental Conference Secretariat	1	20	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	20
Canadian International Development Agency	5,477	8,195	278	176,959	86	31,135	54	23,152	418	231,246	60	14,249	478	245,495	87%	94%	5,955	253,690
Canadian International Trade Tribunal	803	1,233	4	490	3	544	0	0	7	1,034	3	95	10	1,129	70%	92%	813	2,362
Canadian Radio-Television & Telecommunications Council	853	1,620	1	220	3	196	0	0	4	416	3	180	7	596	57%	70%	860	2,216
Canadian Space Agency	2,703	7,467	47	226,701	44	18,796	116	41,750	207	287,247	37	9,881	244	297,128	85%	97%	2,947	304,595
Canadian Transportation Agency	892	887	0	0	1	35	0	0	1	35	0	0	1	35	100%	100%	893	922
Citizenship and Immigration	6,256	7,708	58	28,800	20	25,403	19	5,633	97	59,836	10	3,209	107	63,045	91%	95%	6,363	70,753
Civil Aviation Tribunal	273	142	0	0	0	0	0	0	0	0	0	0	0	0	0	0	273	142
Commissioner for Federal Judicial Affairs	310	547	0	0	1	45	0	0	1	45	11	703	12	748	8%	6%	322	1,295
Commissioner of Official Languages	401	838	0	0	0	0	0	0	0	0	1	55	1	55	0%	0%	402	893
Competition Tribunal	178	37	0	0	0	0	0	0	0	0	1	100	1	100	0%	0%	179	137
Correctional Service Canada	113,154	112,948	519	91,479	585	67,033	9	105,274	1,113	263,786	301	33,995	1,414	297,781	81%	89%	114,568	410,729
Emergency Preparedness Canada	7	103	4	200	0	315	0	0	4	515	1	75	5	590	80%	87%	12	693
Environment Canada	40,974	29,577	318	40,684	18	14,605	159	19,057	495	74,346	178	8,209	673	82,555	74%	90%	41,647	112,132
Federal Court of Canada	1,106	1,590	1	30	0	259	1	169	2	458	10	433	12	891	17%	51%	1,118	2,481
Federal Office of Regional Development (Quebec)	660	1,910	18	1,728	1	836	2	118	21	2,682	5	269	26	2,951	81%	91%	686	4,861
Finance	4,461	4,527	10	5,753	7	1,006	12	1,421	29	8,180	15	1,441	44	9,621	66%	85%	4,505	14,148
Fisheries & Oceans	207,801	144,878	376	62,412	847	134,587	186	23,287	1,409	220,286	280	20,015	1,689	240,301	83%	92%	209,490	385,179
Foreign Affairs and International Trade	10,389	24,961	54	30,085	91	36,198	63	14,034	208	80,317	104	6,335	312	86,652	67%	93%	10,701	111,613
Hazardous Materials Information Review Commission	112	18	0	0	0	0	0	0	0	0	0	0	0	0	0	0	112	18
Health Canada	70,456	55,128	99	14,726	61	12,318	196	25,143	356	52,187	258	18,324	614	70,511	58%	74%	71,070	125,639
Human Resources Development Canada	62,661	58,799	68	15,427	76	55,251	160	47,083	304	117,761	108	8,348	412	126,109	74%	93%	63,073	184,908
Immigration and Refugee Board	1,088	3,518	1	146	7	769	0	0	8	915	0	0	8	915	100%	100%	1,096	4,433
Indian & Northern Affairs Canada	26,472	35,494	127	60,620	122	28,779	41	9,701	290	99,100	134	22,750	424	121,850	68%	81%	26,896	157,344

Appendix A (cont'd)

	Below $25,000		Contracts $25,000 and above														Above $25,000 and below	
Department and Agency	Sub-total		Electronic Bidding		Trad. Competitive		ACANs		Competitive		Non-Competitive		Sub-total		% Comp.		Grand Total	
	#	$ (000)	#	$(000)	#	$(000)	#	$ (000)	#	$ (000)	#	(000)	#	$(000)	#	(000)	#	(000)
Industry Canada	33,089	63,612	74	32,681	445	27,714	138	23,348	657	83,743	270	12,254	927	95,997	71%	87%	34,016	159,609
Justice	6,816	11,856	47	19,349	29	4,609	44	5,123	120	29,081	63	3,651	183	32,732	66%	89%	6,999	44,588
Medical Research Council	471	809	0	0	9	939	0	0	9	939	10	1,000	19	1,939	47%	48%	490	2,748
Natural Sciences & Engineering Research Council	1,394	1,155	1	143	12	742	0	0	13	885	0	0	13	885	100%	100%	1,407	2,040
National Archives	6,947	6,204	10	1,290	2	493	7	630	19	2,413	7	297	26	2,710	73%	89%	6,973	8,914
National Defence	334,210	212,896	2,137	1,217,055	808	812,503	939	1,154,138	3,884	3,183,696	359	3,601,880	4,243	6,785,576	92%	47%	338,453	6,998,472
National Energy Board	579	1,354	4	395	14	1,470	6	1,211	24	3,076	1	-93	25	2,983	96%	103%	604	4,337
National Film Board	1,377	373	6	1,067	2	114	1	116	9	1,297	0	0	9	1,297	100%	100%	1,386	1,670
National Library of Canada	2,141	2,279	2	1,000	0	0	6	684	8	1,684	0	-22	8	1,662	100%	101%	2,149	3,941
National Parole Board	987	484	1	170	2	56	0	0	3	226	0	0	3	226	100%	100%	990	710
National Research Council	39,308	51,519	118	30,194	71	14,592	167	21,430	356	66,216	67	3,967	423	70,183	84%	94%	39,731	121,702
Natural Resources Canada	77,254	84,980	169	25,537	93	15,184	200	19,223	462	59,944	68	4,149	530	64,093	87%	94%	77,784	149,073
Office of the Chief Electoral Officer	574	188	4	719	8	5,709	3	2,930	15	9,358	0	354	15	9,712	100%	96%	589	9,900
Office of the Superintendent of Financial Institutions	1,081	2,054	0	0	6	7,813	0	0	6	7,813	14	886	20	8,699	30%	90%	1,101	10,753
Patented Medicine Prices Review Board	328	323	1	131	1	54	0	0	2	185	0	0	2	185	100%	100%	330	508
Privacy Commissioner of Canada	634	930	0	0	1	26	0	0	1	26	1	50	2	76	50%	34%	636	1,006
Privy Council Office	1,760	3,894	8	4,147	9	4,228	4	281	21	8,656	8	462	29	9,118	72%	95%	1,789	13,012
Public Service Commission	6,065	9,042	43	2,541	58	4,054	5	380	106	6,975	37	1,054	143	8,029	74%	87%	6,208	17,071
Public Works and Government Services Canada	114,017	171,969	1,442	947,817	1,177	1,072,396	292	117,910	2,911	2,138,123	697	215,808	3,608	2,353,931	81%	91%	117,625	2,525,900
RCMP Public Complaints Commission	767	936	0	0	12	765	1	35	13	800	0	0	13	800	100%	100%	780	1,736
Revenue Canada	76,138	62,497	188	99,293	573	73,044	133	35,937	894	208,274	75	12,188	969	220,462	92%	94%	77,107	282,959
Royal Canadian Mounted Police	50,647	28,023	190	44,370	191	23,262	110	33,733	491	101,365	118	13,104	609	114,469	81%	89%	51,256	142,492
Social Sciences & Humanities Research Council	176	499	0	0	6	313	0	0	6	313	0	0	6	313	100%	100%	182	812
Solicitor General Canada	729	2,057	1	43	9	715	3	116	13	874	2	131	15	1,005	87%	87%	744	3,062
Statistics Canada	15,310	20,255	69	5,978	19	4,312	49	4,050	137	14,340	11	589	148	14,929	93%	96%	15,458	35,184
Status of Women	166	723	0	0	18	1,171	0	0	18	1,171	0	21	18	1,192	100%	98%	184	1,915
Supreme Court of Canada	1,012	664	1	76	1	66	0	0	2	142	2	68	4	210	50%	68%	1,016	874
Tax Court of Canada	346	72	0	0	0	0	0	0	0	0	0	0	0	0	0	0	346	72
Transport Canada	44,930	43,672	229	55,419	106	30,950	78	16,339	413	102,708	54	4,934	467	107,642	88%	95%	45,397	151,314
Transportation Safety Board	3,453	1,523	2	78	14	2,274	4	5,266	20	7,618	3	760	23	8,378	87%	91%	3,476	9,901
Treasury Board	5,054	4,602	3	207,363	33	5,417	5	273	41	213,053	12	988	53	214,041	77%	100%	5,107	218,643
Veterans Affairs Canada	8,563	11,005	71	14,414	23	14,296	32	30,827	126	59,537	16	810	142	60,347	89%	99%	8,705	71,352
Western Economic Diversification	2,652	4,225	3	248	9	774	1	231	13	1,253	4	276	17	1,529	76%	82%	2,669	5,754
Total	**1,523,640**	**1,408,134**	**7,168**	**3,558,349**	**5,855**	**2,607,517**	**3,606**	**1,813,423**	**16,629**	**7,979,289**	**3,655**	**4,046,760**	**20,284**	**12,026,049**	**82%**	**66%**	**1,543,924**	**13,434,183**

The Auditor General's power to enter into contracts for professional services is not subject to the Government Contracts Regulations (GCR) but rather to subsection 15(2) of the *Auditor General Act*. The Auditor General's Policy on Contract for Professional Services requires that contracts where the fees are greater than $25,000 be let on a competitive basis except for those that meet one of the criteria for exemption. Seventeen of the 24 contracts reported above had fees valued at below $25,000.

Note: Totals might not add due to rounding.

Source: Excerpt from 1998 Annual Contracting Activity Report.

Appendix B

Government Policy on Contracting

"The objective of government contracting is to acquire goods and services and to carry out construction in a manner that enhances access, competition and fairness and results in best value or, if appropriate, the optimal balance of overall benefits to the Crown and the Canadian people.

Government contracting shall be conducted in a manner that will:

(a) stand the test of public scrutiny in matters of prudence and probity, facilitate access, encourage competition, and reflect fairness in the spending of public funds;

(b) ensure the pre-eminence of operational requirements;

(c) support long-term industrial and regional development and other appropriate national objectives, including Aboriginal economic development;

(d) comply with the government's obligations under the North American Free Trade Agreement, the World Trade Organization Agreement on Government Procurement and the Agreement on Internal Trade."

Source: Treasury Board of Canada Secretariat - Contracting Policy Manual

Report of the Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6

5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry

6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter	
15	Health Canada – First Nations Health: Follow-up
	Other Observations
16	Follow-up of Recommendations in Previous Reports
17	Other Audit Observations

Volume 3 – December 2000

Chapter	
	Matters of Special Importance – 2000 Foreword and Main Points
18	Governance of Crown Corporations
19	Reporting Performance to Parliament: Progress Too Slow
20	Managing Departments for Results and Managing Horizontal Issues for Results
21	Post-Secondary Recruitment Program of the Federal Public Service
22	Development of the Universal Classification Standard: A Follow-up
23	Information Technology: Acquisition of Goods and Services
	Protecting Health and Safety
24	Federal Health and Safety Regulatory Programs
25	Canadian Food Inspection Agency – Food Inspection Programs
26	Health Canada – Regulatory Regime of Biologics
27	Canadian Nuclear Safety Commission – Power Reactor Regulation
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29	Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31	Fisheries and Oceans – Fleet Management
32	National Defence – Defence Support Productivity: A Progress Report
	Other Observations and Appendices
33	Follow-up of Recommendations in Previous Reports
34	Other Audit Observations
35	Sustainable Development Strategy for the Office of the Auditor General

Report of the
Auditor General of Canada
to the House of Commons

Chapter 30
Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Cat. No. FA1-2000/3-30E
ISBN 0-662-29589-7
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Chapter 30

Fisheries and Oceans

The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 30-5

Introduction 30-7

Size and status of salmon farming industry 30-7
Focus of the audit 30-10

Observations and Recommendations 30-12

Departmental Mandate to Conserve and Protect Wild Salmon and Habitat 30-12
A policy framework for the conservation and protection of wild salmon stocks 30-12
Development of a Management Plan for Salmon Farming 30-13
Lack of a formal plan to manage risks 30-13
Environmental assessment carried out by British Columbia 30-13
Developing a Regulatory Framework 30-13
Regulatory and Co-ordination Issues Requiring Attention 30-14
A need for science support 30-14
Inadequate monitoring and enforcement 30-14
Problems with enforcing compliance 30-15
Use of Siting Criteria 30-16
Siting of salmon farms used as alternative to monitoring and enforcement 30-16
Lack of a scientific basis for siting criteria 30-16
Assessment of Cumulative Effects 30-17
Recent evidence and risks to be considered in environmental assessments 30-17
Review of environmental effects is needed before lifting moratorium 30-17
Shortfalls in Research and Monitoring to Assess Effects 30-17
Research needs not fully identified nor priorities established 30-17
Recent evidence on interactions between Atlantic and Pacific salmon requires attention 30-18
Research on genetically modified and sterile salmon 30-20
No monitoring of sensitive coastal habitat adjacent to farm sites 30-21
No regular monitoring of wild salmon stocks adjacent to farm sites 30-21
Inadequate monitoring for the presence of Atlantic salmon 30-21
Resolution of Federal-Provincial Issues 30-23
Action taken to co-ordinate efforts 30-23
More work is needed to resolve issues 30-24

Conclusion 30-25

About the Audit 30-28

Page

Exhibits

30.1 Location of Salmon Farms in British Colombia 30-7
30.2 British Columbia Production of Farmed Salmon by Species 30-9
30.3 World Production of Farmed Salmon and Sea Trout by Country 30-9
30.4 Life Cycle of Pacific Salmon 30-10
30.5 Status of Knowledge/ Information Gaps on the Interactions Between Atlantic and Pacific Salmon 30-19
30.6 Catch Data for Adult Atlantic Salmon in the British Columbia Marine Environment, 1988–1999 30-22
30.7 Sightings and Catch Data for Adult Atlantic Salmon in the British Columbia Freshwater Environment, 1990–1999 30-23

Fisheries and Oceans

The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

Main Points

30.1 Fisheries and Oceans is managing the salmon farming industry on the basis that it poses an overall low risk to wild salmon and habitat. However, the Department is not fully meeting its legislative obligations under the *Fisheries Act* to protect wild Pacific salmon stocks and habitat from the effects of salmon farming. We found that the Department:

- is not fully carrying out its current regulatory responsibilities to enforce the *Fisheries Act* with respect to salmon farming operations;
- is engaged in research and is working with the Province of British Columbia (B.C.) to develop a regulatory framework for salmon farming, but there are shortfalls in research and monitoring to assess the effects of salmon farming operations; and
- has not put in place a formal plan for managing risks and for assessing the potential cumulative environmental effects of proposals for new sites, should the decision be made to expand the industry.

30.2 There is an urgent need for the Department to address these shortcomings in consultations with the Province if their goal of ensuring the co-existence of sustainable salmon fishing with the farming industry is to be achieved. The Department has recently obtained additional funds, which it plans to use to respond to industry and public concerns. Some projects include habitat management, further study on the environmental effects of aquaculture operations on fish habitat, and the effects of farmed and wild stock interaction. The Department has also notified the Province of B.C. and the salmon farming industry that it intends to begin assessing all fish farm operations to ensure that they are in compliance with the *Fisheries Act*.

Background and other observations

30.3 This is our third audit since 1997 of the Department's Pacific salmon management programs. In previous chapters we reported on habitat protection and management of the salmon fisheries. We found that loss of salmon habitat continued and that some wild salmon stocks were declining. Salmon farming has the potential to create additional stress on wild salmon stocks over time, especially if the industry expands. We found that the Department has not developed a plan to evaluate and manage the risks in the long term.

30.4 Reaching conclusions on the effects of salmon farming is difficult because there have been few scientific studies that apply directly to the B.C. situation. Recent scientific evidence of escaped Atlantic salmon reproducing in B.C. streams, and the potential for expansion of the industry, are raising new questions regarding effects on wild salmon stocks, including the cumulative effects on the environment and fisheries resources.

30.5 Atlantic salmon are raised initially in freshwater hatcheries, and at the juvenile stage they are transferred to open net pens in marine coastal waters in B.C. to complete their growth. They are harvested as adult salmon. It is while they are being reared in open net pens that possible interactions with wild salmon and their habitat can occur. Furthermore, open net pens are vulnerable to damage, which can result in escapes of farmed salmon.

The Department concurs with the contents of the chapter.

Introduction

Size and status of salmon farming industry

30.6 British Columbia's salmon farming industry can be traced back to the early 1970s. Farms were concentrated originally in the Sechelt/Sunshine Coast and Campbell River areas and later on the northeast and west coasts of Vancouver Island, as cooler water provided better conditions for raising fish (see Exhibit 30.1). In the last decade, production has grown steadily. Today, 17 salmon farming companies, including 3 of the world's largest, operate 105 active salmon farms in British Columbia (B.C.). Farm production is dominated by Atlantic salmon (81 percent), followed by chinook (16 percent) and coho salmon (3 percent) (see Exhibit 30.2). North Vancouver Island has become the most active production area, accounting for over 50 percent of the provincial output. In 1999, the industry estimated that it had generated 1,800 direct jobs and 1,600 indirect jobs, and contributed $677 million to the B.C. economy. This represented a 10 percent increase from 1998. Salmon farming has become an established industry in B.C. and is a significant contributor to the Province's economy.

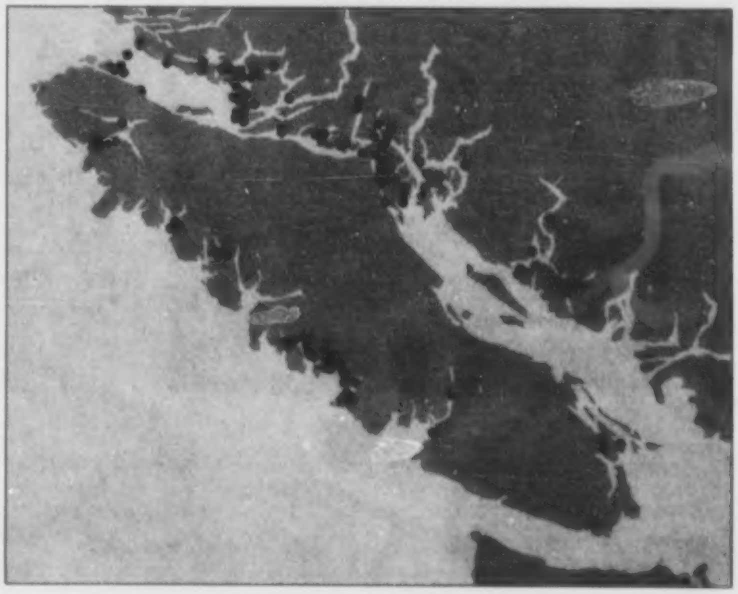
30.7 Canada is the fourth largest farmed salmon producer in the world after Norway, Chile and the United Kingdom; in 1999 it produced five percent of the world's farmed salmon. B.C.'s share was 49,100 metric tonnes, nearly 70 percent of Canadian production. In 1999, B.C. exported 77 percent of its farmed salmon, valued at $308 million. The United States was the main consumer, with the balance sold either domestically or in Japan and Taiwan. Markets for farmed salmon are expanding (see Exhibit 30.3).

30.8 In 1995, the Province of British Columbia, in consultation with Fisheries and Oceans, implemented a moratorium on expansion of the salmon farming industry; this was in response to public concern about the effects of the industry on wild salmon stocks and the marine environment. Indications are that the moratorium may be lifted in two to three years pending the development of a regulatory framework for managing farming operations, an evaluation of industry compliance, technical developments, and consultation with coastal communities. A public poll on salmon farming in B.C. reported in 1999 that 69 percent of respondents would support expansion, assuming the guidelines in the B.C. Salmon Aquaculture Review are turned into workable regulations. The primary concern facing governments is how to address current and emerging environmental and ecological issues that are associated with the industry, and to ensure that the wild salmon stocks are not adversely affected any time during their life cycle (see Exhibit 30.4). It is in the Department's and B.C.'s mutual interest to create an environment in which wild

Salmon farming has become an established industry in British Columbia.

Exhibit 30.1

Location of Salmon Farms in British Colombia



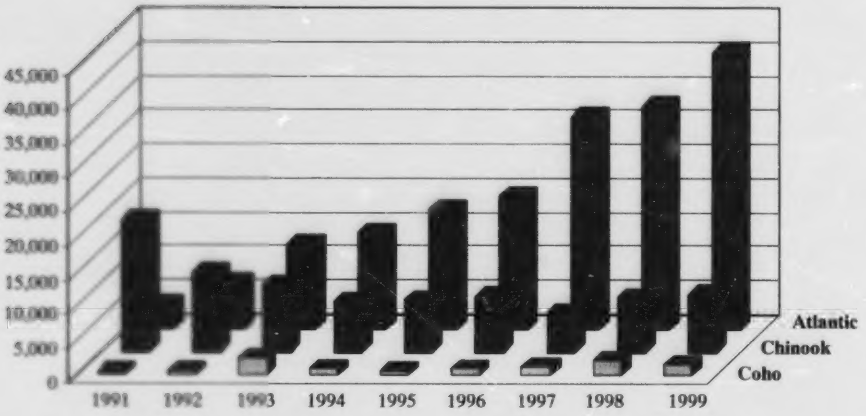
Source: Fisheries and Oceans, Pacific Region, Habitat and Enhancement Branch

Examples of salmon farm open net pens in marine coastal British Columbia (see paragraph 30.6).

Exhibit 30.2

British Columbia Production of Farmed Salmon by Species

(round tonnes)

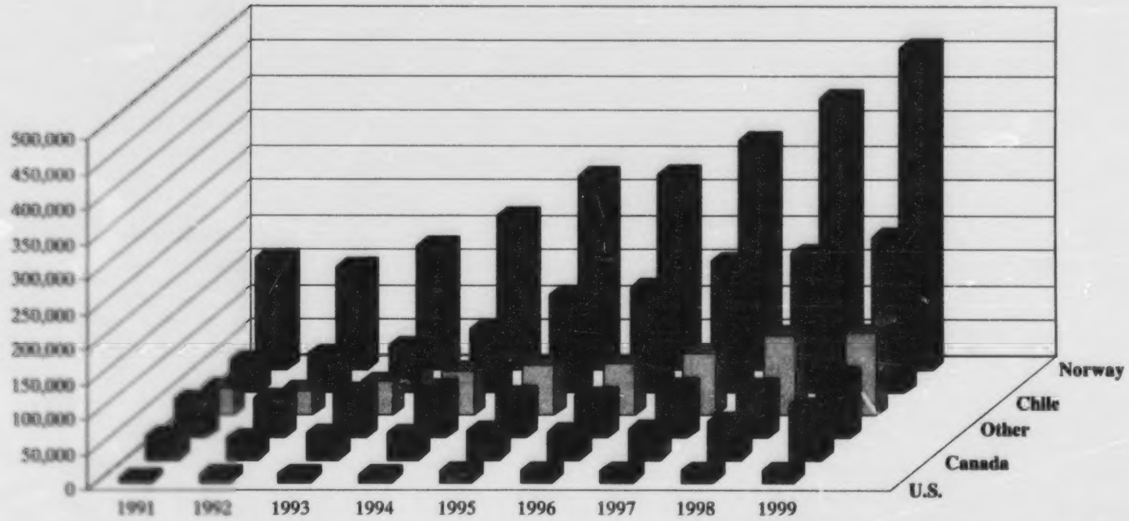


Source: British Columbia Salmon Farmers' Association

Exhibit 30.3

World Production of Farmed Salmon and Sea Trout by Country

(metric tonnes rounded weight)



Source: British Columbia Salmon Farmers' Association salmon and the farming industry can co-exist, thus maximizing sustainable economic benefits.

30.9 The Department has a lead role in determining this outcome, given its responsibilities for conserving and protecting wild Pacific salmon stocks and their habitats under the *Fisheries Act* and its emerging role in coastal zone management under the *Oceans Act*.

There are conflicting views on the effects of salmon farming on wild salmon stocks and the environment.

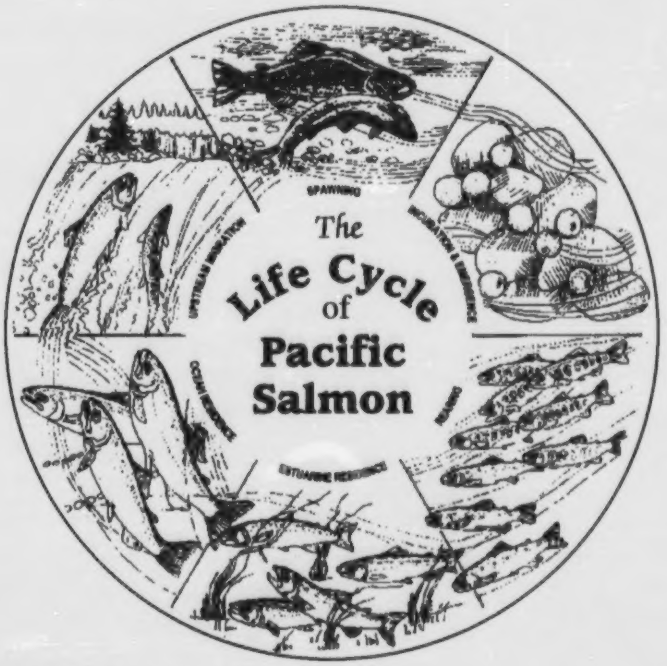
30.10 There are conflicting views on the effects of salmon farming on wild salmon stocks and the environment. Expert opinion on the probabilities and consequences of such effects is diverse, emphasizing the uncertainty surrounding the issue at this time.

Focus of the audit

30.11 This is our third audit of Fisheries and Oceans' Pacific salmon management programs. The first, reported in 1997, examined the Department's management of the resource base, concentrating on the conservation of salmon habitat. The second, reported in 1999, examined the Department's management of the salmon fisheries.

Exhibit 30.4

Life Cycle of Pacific Salmon



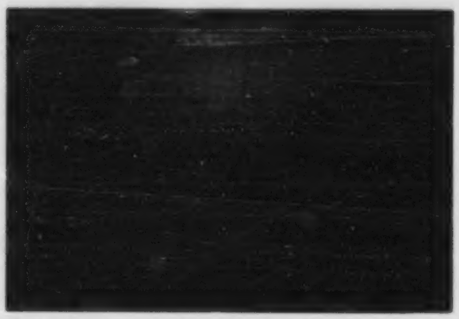
Source: Fisheries and Oceans

30.12 The objective of the current audit was to determine whether the Department, as the agency responsible for the conservation and protection of wild salmon stocks, is meeting its obligations under the *Fisheries Act* and the *Oceans Act,* while participating in the regulation of the salmon farming industry in B.C. The *Oceans Act* deals with the conservation, management and exploitation of marine resources. These resources will be managed through an Oceans Strategy being developed by the Department in consultation with those departments and agencies having marine responsibilities. Both the salmon fishing and salmon farming industries will be managed within this context. The Minister of Fisheries and Oceans is responsible for enforcing the provisions of both the *Fisheries Act* and the *Oceans Act* in their entirety.

30.13 As no relevant regulations have yet been developed under the *Oceans Act,* our audit focussed on the *Fisheries Act*. The audit examined aspects of the Department's regulatory role in this area, including its operational responses to current and emerging environmental and ecological problems posed by the industry. We did not focus on the industry itself other than to familiarize ourselves with salmon farming operations by visiting several salmon farms and by gathering facts and statistics through interviewing key industry personnel and examining industry publications. We did not include the Department's salmon enhancement program in the scope of this audit.

30.14 Further details on the audit are found at the end of the chapter in **About the Audit.**

Open net pen setup



Protecting young salmon from predators

Harvesting adult salmon from pens

Feeding salmon manually

Automatic feeding system

Sorting Atlantic salmon for harvest

Examples of salmon farming operations in British Columbia (see paragraph 30.13).

Observations and Recommendations

Departmental Mandate to Conserve and Protect Wild Salmon and Habitat

30.15 Fisheries and Oceans' mandate requires it to conserve and protect wild salmon and its habitat. The primary vehicle for the regulation of effects on fish and fish habitat is the federal *Fisheries Act*. Sections 35 and 36 prohibit the harmful alteration, disruption or destruction (HADD) of fish habitat and the deposit of any amount of a deleterious substance, though the Department can authorize HADD or develop regulations governing the release of deleterious substances. Where an activity is likely to result in HADD or in the deposit of a deleterious substance, the Minister is authorized under section 37 to request information about planned activities and to require modifications or restrict the proposed activity. These sections of the *Fisheries Act* provide the basis for the Department's role in reviewing applications and setting conditions for salmon farming licences submitted to the Province of B.C.

Federal and provincial jurisdictions overlap in the regulation of fish farming.

30.16 Regulations under which the Department carries out its regulatory role with respect to salmon farming include the Fish Health Protection Regulations, Marine Mammal Regulations, and the Fisheries Regulations (General).

30.17 Since federal and provincial jurisdictions overlap in the regulation of fish farming, separating the authority held by the parties is sometimes difficult. Fisheries and Oceans and B.C. came to an agreement on responsibilities and co-ordination of activities in their 1988 Memorandum of Understanding (MOU) on Aquaculture Development. Under the MOU, B.C. has the primary responsibility for management and development of the aquaculture industry in consultation with Fisheries and Oceans. The Department retains regulatory responsibility in a number of areas, including conservation and protection of fish and fish habitat.

Under its new Strategic Plan, the Department uses a precautionary approach when making decisions.

A policy framework for the conservation and protection of wild salmon stocks

30.18 Fisheries and Oceans has several key policies and strategies that direct its actions to conserve and protect wild salmon stocks; these are its Strategic Plan (2000), its Policy for the Management of Fish Habitat (1986), and A New Direction for Canada's Pacific Salmon Fisheries (1998). These strategies and policies reflect Canada's international commitments to the precautionary approach, to be implemented through the *Fisheries Act* and the *Oceans Act*.

30.19 The new Strategic Plan confirms conservation of resources as one of the Department's highest priorities. Under the Plan, the Department is to use a precautionary approach when making decisions. The Pacific Regional office has developed its own strategic plan that recognizes the need to conserve and protect oceans, and to manage resources to ensure sustainability. The plan's focus is on safeguarding biological diversity and maintaining the economic potential of the ocean and its resources. Principles for managing salmon and salmon fisheries are embodied in the New Direction for Canada's Pacific Salmon Fisheries and will also be developed in subsequent policies, such as the Wild Salmon Policy, now at the draft stage.

30.20 The Department released the draft Wild Salmon Policy for consultation in March 2000. At the conclusion of our audit, the Department was still holding consultations on the draft, and was aiming to finalize the policy in spring 2001. This policy, according to the Department, is not meant to address industry-specific operational questions. The development of an operational policy and plan that would set clear priorities for decisions on conserving and protecting wild salmon stocks from any effects of salmon farming will follow. However, the Department has not yet indicated when it will release such a policy.

Development of a Management Plan for Salmon Farming

Lack of a formal plan to manage risks

30.21 As a regulator of the effects of salmon farming on wild salmon, the Department is in the business of risk management. Although it is addressing the risks associated with present farming operations, it has no formal plan for managing risks associated with an expanded industry should the moratorium be lifted.

Environmental assessment carried out by British Columbia

30.22 Rather than conduct its own risk assessment, the Department participated in the provincial Salmon Aquaculture Review (SAR), which was completed in 1997. The SAR was a comprehensive environmental assessment of salmon farming. It provided 49 recommendations to mitigate potential risks/effects of salmon farming on the environment. The technical advisory team for the provincial Review was tasked with evaluating all the available scientific literature, research and observational information available at the time.

30.23 The Department has accepted the SAR's conclusion that salmon farming poses a low risk to wild Pacific stocks and has based its actions on this level of risk. It should be noted that the Review was based on existing production levels and practices and was not meant to prejudge the outcome of environmental assessments of future growth in the industry. Such assessments would need to take into account increased knowledge and awareness of environmental issues, as well as improvements resulting from the implementation of the SAR recommendations.

Developing a Regulatory Framework

The Department is in the business of risk management.

30.24 Canada is taking an advocacy role in aquaculture and has national strategies to guide this work; the centrepiece is the Federal Aquaculture Development Strategy (FADS), introduced in 1995, with Fisheries and Oceans as the lead department. The Strategy also recognizes the Department's responsibility for fish conservation and protection and requires its aquaculture development activities to be sustainable.

30.25 The FADS makes two separate commitments to conduct legislative reviews. These are:

- to undertake a comprehensive review of all federal legislation and any accompanying regulations to identify and remove, where appropriate, constraints to aquaculture development; and
- to develop and implement a responsive and effective regulatory and policy framework to ensure that aquaculture is conducted in an environmentally sustainable manner, in co-operation with the provinces/territories and industry.

Some progress has been made in developing a regulatory framework.

30.26 The Commissioner for Aquaculture Development, who reports to the Minister of Fisheries and Oceans, is conducting a legislative review, and has made recommendations for removing constraints and ensuring that there are controls in place to safeguard the environment. It is important that, in response to these recommendations, the Department give appropriate consideration to environmental issues, in accordance with its mandate.

Regulatory and Co-ordination Issues Requiring Attention

30.27 In 1977 Fisheries and Oceans developed Fish Health Protection Regulations under the *Fisheries Act* to minimize the potential for introducing or transferring diseases of salmonids. At the time of the Salmon Aquaculture Review, egg importation to the Pacific region was permitted only for research or broodstock development programs. The Department plans revisions to the regulations to meet new and emerging international standards and to broaden the regulations to include all finfish.

It is unclear to what extent wild salmon are affected when they are in the vicinity of farming operations.

30.28 As noted earlier, salmon farming effects are to be regulated through sections 35 and 36 of the *Fisheries Act*, which prohibit the harmful alteration, disruption or destruction (HADD) of fish habitat and the deposit of deleterious substances. Such substances — for example, products used to suppress the build up of marine growth on nets — may be used in salmon farming. Others may be produced when there is buildup and decomposition of organic material (uneaten food and feces) on the ocean floor. When decomposition takes place in the absence of oxygen, hydrogen sulfide may be produced, which is harmful to marine life. It is a widely held view within the Department and the environmental community that salmon farming (in some instances) has had such effects on fish habitat under and adjacent to net pens. However, it is unclear at this time if, and to what extent, wild salmon are affected when they are in the vicinity of farming operations.

Salmon farms are not monitored for effects on fish and fish habitat.

A need for science support

30.29 Fisheries and Oceans is still considering how the *Fisheries Act* is to be applied to salmon farming. This relates specifically to the use of HADD authorizations or the development of regulations to allow the deposit of a deleterious substance at certain levels (yet to be determined). The Department is currently conducting and participating in research with a view to determining how to enforce the *Fisheries Act* in keeping with the principle of "no net loss of habitat" embodied in the Policy for the Management of Fish Habitat. Some of these issues are being considered through a National Habitat Management Working Group on Aquaculture, although progress is slow. Under the Department's Environmental Science Strategic Research Fund, departmental scientists are conducting studies of the effects of salmon farming at the sites and further afield. The studies will aid the Department in defining the broad scale effects of aquaculture on fish habitat. In our opinion, such studies need to include the effects on Pacific salmon of contaminants in the water column in the vicinity of the net pens.

Inadequate monitoring and enforcement

30.30 Fisheries and Oceans is not ensuring that salmon farms are monitored for effects on fish and fish habitat, with a view to enforcing the *Fisheries Act*. A major constraint to enforcing habitat provisions is the Department's lack of scientific information that would enable it to develop administrative criteria for what constitutes harmful alteration, disruption or destruction (HADD) of habitat with respect to salmon farming. Without such information, field officers do not know how to monitor farming activities to ascertain compliance with the Act.

30.31 The Department is not currently monitoring effects on marine habitat or on juvenile or adult Pacific salmon in the vicinity of net cages. However, earlier this year, the Department became involved in a provincially led Technical Advisory Group that is working to co-ordinate monitoring activities between governments and with industry. The Department has also received funding for aquaculture-related activities, including $22.5 million (nation-wide) for an improved management and regulatory framework. Enhanced monitoring including the assessment of the effectiveness of new regulations may be part of this package, though information on specific activities has yet to be released.

30.32 Responsibility for administering section 36 of the *Fisheries Act* (dealing with deleterious substances) has been delegated to Environment Canada, under the terms of a 1985 Fisheries and Oceans/Environment Canada Memorandum of Understanding (MOU); however, Fisheries and Oceans retains ultimate authority for all sections of the *Fisheries Act*. A 1987 Regional Working Agreement for the B.C. and Yukon Region on the same subject further delineates responsibilities. We found that the MOU and Agreement contained clear accountability requirements, along with a means to revisit the terms of the agreements if they were not functioning properly.

30.33 There is a problem with how Environment Canada is carrying out its monitoring responsibilities under the MOU and the Agreement. In practice, Environment Canada is monitoring the effects of salmon farming only on shellfish beds and not on salmon and their habitat. Therefore, the commitments it made with respect to salmon farming are not being fully implemented.

30.34 Both departments are aware of the limited coverage under section 36. Officials told us that Environment Canada has committed to establishing a working group, including Fisheries and Oceans, to report on the desirability of a section 36 regulation to deal with deleterious substances by 2001. However, if Environment Canada is unable or unwilling to take action on section 36 responsibilities, the onus is on Fisheries and Oceans, as the responsible authority, to do so.

Problems with enforcing compliance

30.35 Under the *Fisheries Act*, the Department can authorize salmon farming activities that may bring about the harmful alteration, disruption or destruction of habitat (HADD). It has not done this; yet there is a widely held view within the Department that salmon farming, in some instances, has had some highly negative effects on fish habitat. No salmon farm operator has been prosecuted under the *Fisheries Act* for the release of a deleterious substance having an impact on fish habitat. However, the courts have interpreted the *Fisheries Act* broadly and have found that it applies even where the impact may be limited or indirect, if the impact threatens fish or fish habitat. For example, in our opinion, the definition of HADD would then apply to any contamination of waters used by Pacific salmon at any time during their life cycle.

No salmon operator has been prosecuted under the *Fisheries Act* for the release of a deleterious substance having an impact on fish habitat.

30.36 A private prosecution was recently lodged against a salmon farm operator. However, the Crown Counsel of the federal Department of Justice stayed the charges on the grounds that licensing of the site (with knowledge of the effects) would reduce the chances of a conviction. It was acknowledged that there was evidence of damage to the sea bed below and adjacent to the salmon farm. Fisheries and Oceans recently informed salmon farmers that, in light of Crown Counsel's findings, it intends to enforce the *Fisheries Act* with respect to salmon farming; but it has not yet provided information on how it will determine the administrative criteria for HADD and (if a regulation is developed) for deleterious substances.

30.37 Fisheries and Oceans should act immediately to strengthen its monitoring and enforcement capabilities for salmon farming operations.

Use of Siting Criteria

Siting of salmon farms used as alternative to monitoring and enforcement

30.38 Fisheries and Oceans has reasoned that well-sited farms at approved production levels will not produce deleterious substances or HADD. The Department's role is to examine proposals for the siting of salmon farms and to determine whether they are likely to result in HADD, or in the deposit of a deleterious substance in water frequented by fish.

The Department has initiated studies to provide a scientific basis for the siting criteria.

30.39 Fisheries and Oceans scientists drafted siting criteria in 1985 and refined them in 1986. This was subsequent to determining that farms located at shallow, poorly flushed sites were negatively affecting the organisms living on the ocean floor under net pens, as well as causing production problems for operators. To date, these siting criteria have undergone some minor changes, but remain in draft form and have never been formally adopted by the Department. Fisheries and Oceans is now planning to follow the siting criteria that have been developed by the Province (based on the B.C. Salmon Aquaculture Review recommendations) and vetted through the B.C. Fish Farm Review Committee (in which the Department plays an advisory role). These are similar to the Department's criteria.

Lack of a scientific basis for siting criteria

30.40 We expected that the Department would have done more work to provide a scientific basis for its siting criteria and/or to modify its siting criteria using the precautionary approach. Our expectation was based on the Department's concerns about the potential effects of poorly sited salmon farms and the potential for future expansion of salmon farming on the West Coast.

30.41 A 1998 workshop of Fisheries and Oceans habitat scientists concluded that because siting criteria designed to protect both vulnerable wild fish stocks and sensitive habitats are not scientifically based, they leave the Department vulnerable if challenged legally. The Department's Pacific Scientific Advice Review Committee, in its review of the workshop findings, confirmed the need for a scientific basis for the siting criteria. The B.C. Salmon Aquaculture Review also recommended that scientific studies be conducted in specific areas to provide information for developing more credible criteria.

30.42 The Department has recognized the need for such research and has initiated studies to provide a scientific basis for the criteria. However, these studies do not consider any potential effects of salmon farming on wild salmon in the vicinity of net pens.

30.43 The Province is now making decisions on the relocation of about 40 poorly located operations to new areas. It has identified 11 sites in the first round of relocations and is calling on the Department to comment on both the siting criteria and the individual re-siting applications. However, at this time, the Department is unprepared for the demands of the Province's current relocation process and must still base its input to the process on the existing criteria and on scientific judgment.

30.44 The Department has recognized the need for siting criteria to be flexible, as site characteristics are unique and must be considered on a case-by-case basis. Therefore, it is anticipating that new criteria will still require scientific judgment in the assessment of individual sites.

Assessment of Cumulative Effects

Recent evidence and risks to be considered in environmental assessments

30.45 The status of wild salmon has become a concern. Ocean productivity has been poor for certain stocks; some coho stocks are in serious trouble and closures of both coho and sockeye fisheries have occurred; and salmon habitat continues to be lost. In addition, the proposed species at risk legislation before the House of Commons at the time of the audit could result in the listing of endangered or threatened salmon stocks. This would require the Department to take action to impose protective measures and develop recovery plans for stocks at risk. While the Department has done some work in this area, the number of salmon stocks that may be listed has yet to be determined.

30.46 Although the number of salmon farms has been capped at 121 since 1995, overall production has increased. We are concerned that, given this situation, the potential for escapes may increase over time. Both the Department and the Province recognize the need to control Atlantic salmon escapes in the interest of environmental sustainability. Implicit in this recognition is a concern about the risk associated with salmon escapes, especially if the number of farms is increased and some are located near streams containing stocks at risk. We note that in October 2000 the Province announced the introduction of new regulations to prevent salmon escapes. While the possibility of escaped Atlantic salmon actually spawning was accounted for in the B.C. Salmon Aquaculture Review, recent evidence on interactions between Atlantic salmon and wild stocks (as noted in paragraphs 30.51-55) still needs to be taken into account in future environmental assessments.

Review of environmental effects is needed before lifting moratorium

30.47 Proposals for new salmon farms could require assessment under the *Canadian Environmental Assessment Act* (*CEAA*). An assessment would be triggered by the Department's consideration of an authorization for the harmful alteration, disruption or destruction of fish habitat by a salmon farm, or to issue an approval under the *Navigable Waters Protection Act*. Furthermore, the *CEAA* requires that any cumulative environmental effects that are likely to result from projects or activities be considered during environmental assessments. In our opinion, the potential cumulative environmental effects of multiple salmon farm proposals warrant public review before a decision is made to lift the moratorium.

Both the Department and the Province recognize the need to control Atlantic salmon escapes.

30.48 The Department is currently unable to assess the cumulative environmental effects of salmon farm operations, as required by the *CEAA*. However, it recognizes that it needs to determine how to assess the effects of multiple salmon farms on wild salmon stocks, and how salmon farming operations interact with other human activities in the coastal zone. It has recently started work to develop a model to assess the cumulative effects of waste discharge from salmon farming operations on the coastal zone environment. However, the Department is doing little on the effects of escaping Atlantic salmon, except for the Atlantic Salmon Watch Program, which provides some information on interactions between Atlantic and wild Pacific salmon (see paragraphs 30.65-71).

The potential cumulative environmental effects from multiple salmon farm proposals warrant public review before a decision is made to lift the moratorium.

Shortfalls in Research and Monitoring to Assess Effects

Research needs not fully identified nor priorities established

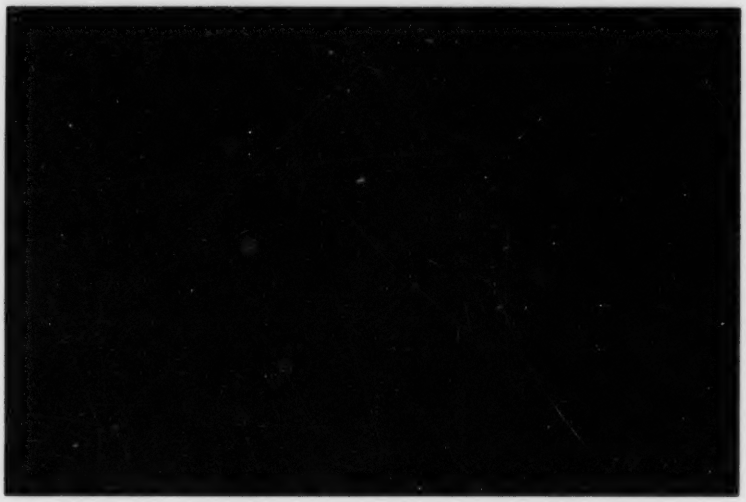
30.49 The 1997 B.C. Salmon Aquaculture Review identified a wide

Fisheries and Oceans is not giving adequate attention to prioritizing research requirements.

range of research needs associated with the salmon farming industry and its effects on the environment in general and on wild salmon in particular. Others with interests in this area have since contributed information, including scientists working on all aspects of salmon biology and ecology as well as environmental and ecosystem issues. The Department is not giving adequate attention to prioritizing research requirements to guide its science program or to fostering co-operative research in this area. However, it has scheduled a workshop to be held in October 2000 to identify research priorities for reducing critical knowledge gaps. It has also carried out some scientific projects in support of the recent court case (see paragraph 30.36).

Recent evidence on interactions between Atlantic and Pacific salmon requires attention

30.50 There is recent evidence on the presence of Atlantic salmon in B.C. rivers and streams. At the time of the B.C. Salmon Aquaculture Review, Atlantic salmon ready to spawn had been observed in B.C. streams, but no juveniles from spawning Atlantic salmon had been captured. Since then, Atlantic salmon have successfully reproduced in at least two rivers on Vancouver Island, the Tsitika and the Amor de Cosmos. In view of the possible effects on life history processes of wild Pacific stocks, this information needs to be taken into account in assessing potential effects of an expanded industry. An increase in the number of salmon farms could result in an increase in the overall number of escaping Atlantic salmon. The larger the number of Atlantic salmon present in B.C. waters, the greater the chance of their disrupting the life history processes (migration, reproduction, competition and predation) of the wild Pacific salmon.



Example of mature adult Atlantic salmon ready for harvest (see paragraph 30.51).

30.51 There is evidence that farmed Atlantic salmon are present in B.C. streams at all life history stages. However, according to a recent gathering of experts convened by Simon Fraser University in March 2000, more information is needed on the effects of interaction between Atlantic and wild Pacific salmon (see Exhibit 30.5). The need for such information, which was also identified in the B.C. Salmon Aquaculture Review, assumes greater importance when consideration is given to increasing the number of farm sites.

30.52 The Department has participated in determining the origin of juvenile Atlantic salmon in the two locations on Vancouver Island. It has also done some research to date on the interactions with wild Pacific salmon, including laboratory hybridization experiments. A graduate student at the University of Victoria in B.C. is currently working on interactions in the field; the work is nearing publication.

30.53 The Department's current assessment of low risk is based on conclusions and information considered in the B.C. Salmon Aquaculture Review (see paragraph 30.22). The review's conclusion is based on a large body of evidence on unsuccessful historical introductions of Atlantic salmon into B.C. coastal streams between 1905 and 1935 and in

Washington State between 1951 and 1991. However, we believe that the recent evidence of the presence of Atlantic salmon at various life stages in B.C. rivers warrants further attention. For example, while past introductions failed, were the attempts made under different circumstances than those occurring today? Also, were Atlantic salmon adapted to local conditions as is now occurring through salmon farming operations?

30.54 Although there are differing opinions on the conditions under which exotic species become established, there is support for the belief that if an exotic species is repeatedly introduced into a suitable habitat, the likelihood of it becoming established increases over time. Although the Department's evaluation may be acceptable given the present level of farm production, we believe that the matter should be revisited under the terms of an expanded industry.

30.55 Further research is needed into effects on the health of wild salmon stocks. An independent group of scientists, referred to in paragraph 30.51, concluded that diseases seen in salmon farms are found in wild stocks, and pathogens are known to move from those stocks to farm salmon. The Department acknowledges that it does not have enough information available to assess the risk of disease transfer from farmed salmon to wild stocks. Its Canadian Stock Assessment Secretariat reports, along with international studies, indicate that there is a serious lack of information in this area.

Exhibit 30.5

Status of Knowledge/ Information Gaps on the Interactions Between Atlantic and Pacific Salmon

(Either recently escaped or wild spawned)

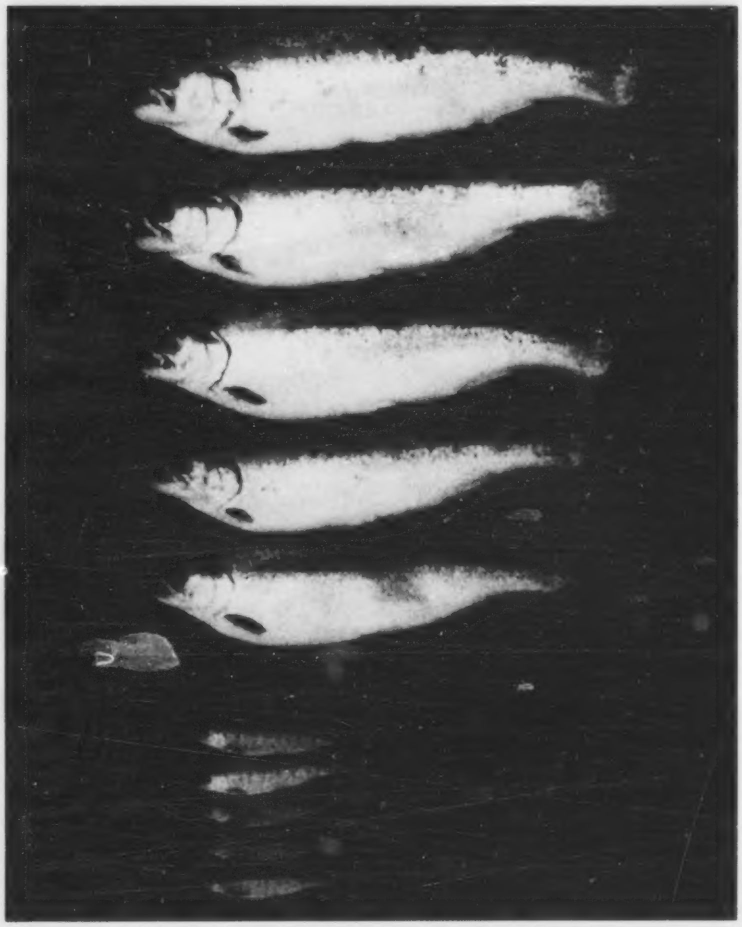
Area of Concern	Has it been examined?	Has it been demonstrated/ documented?	What is the potential for impact on wild Pacific stocks?
Marine			
Competition for food	No	No	Unknown
Interference/disruption of migration	No	No	Relatively low risk
Attraction of wild salmon to net-cage sites (both lighted and not lighted)	No	No	Possible interruption of seaward or adult return migration patterns
Freshwater			
Interference with spawning (behavioural or egg consumption)	No	No	Risk is anticipated but magnitude is unknown
Pacific salmon eggs dug up by spawning Atlantic salmon	No	No	Risk is anticipated but magnitude is unknown
Competition between juveniles for food and space	Yes	Yes	Potentially high; needs to be evaluated
Habitat displacement in freshwater among juveniles	Yes – in laboratory	Yes but appropriate controls lacking	Risk is anticipated but magnitude is unknown

Source: Continuing Studies in Science at Simon Fraser University, Salmon Workshop Proceedings – Aquaculture and the Protection of Wild Salmon, July 2000.

This prevents any meaningful assessment of the potential implications on fish health of interaction between wild stocks and farmed salmon. However, the Department enforces Fish Health Protection Regulations, and no exotic diseases have been found in B.C. waters to date.

One line of transgenic Atlantic salmon is being developed by a private company in Eastern Canada.

30.56 There are many sources of antibiotics in the marine environment, including human sewage, and discharges from agricultural operations, federal and provincial salmon and trout enhancement facilities, and salmon farming. Antibiotic resistance could result from any of these sources as well as from natural causes. A 1990 study suggested that bacteria had developed a resistance to antibiotics at fish farms on Jervis Inlet (along the Sunshine Coast) and at Tofino (west coast of Vancouver Island). The Department recognizes that the use of antibiotics in salmon farming is a concern. It states that antibiotic resistance could become a priority research area if antibiotics are to be used more heavily; but a 2000 departmental review paper stated that there is no evidence of a current problem in B.C. waters.



"Transgenic" coho genetically modified for growth enhancement (top) compared with normal coho juveniles (bottom), both at 14 months of age (see paragraph 30.57).

Source: Fisheries and Oceans

Research on genetically modified and sterile salmon

30.57 Genetically modified or "transgenic" salmon are currently not in commercial use anywhere in the world, but their use is being contemplated internationally. Interest in these fish as safe to eat has increased significantly. Although there is currently no interest in B.C. in farming transgenic salmon, the situation could change if global opinion endorses the use of transgenics abroad, giving foreign salmon producers advantages in the market. In fact, at least one line of transgenic Atlantic salmon is being developed by a private company in Eastern Canada. While safety is the primary concern, the use of transgenic salmon also raises questions about their behaviour and their effects on wild salmon stocks and habitat, should they escape into B.C. waters.

30.58 At its West Vancouver Laboratory, the Department is conducting research for risk assessment purposes into coho genetically modified for growth enhancement. There is not enough information yet to reliably predict potential effects on the B.C. environment and wild salmon stocks. However, the Province has announced that it has adopted as policy the Salmon Aquaculture Review recommendation that government should continue to prohibit the commercial farming of transgenic salmon in marine net cages.

30.59 Induced sterility and use of only female salmon have been proposed as ways to prevent the establishment of wild stocks and thereby reduce the risks posed by genetically modified salmon. The Department is currently studying the effectiveness of sterilization methods and looking at the associated uncertainties. As options for preventing reproduction are more promising, it is important that the Department keep up with research in this area.

30.60 Fisheries and Oceans should identify areas of needed research to understand the potential effects of an expanded salmon industry. It should assign priorities to ensure the most effective use of limited resources within the time period remaining before new farm site proposals are reviewed.

No monitoring of sensitive coastal habitat adjacent to farm sites

30.61 The Department is not monitoring sensitive coastal habitat adjacent to existing and potential salmon farm sites. Its new $75 million funding to implement its Program for Sustainable Aquaculture may provide the resources it needs to become actively involved with the Province in monitoring and evaluating existing and proposed farm sites from this perspective. However, specific information about how the funds will be allocated is not yet available.

30.62 Stream classification systems are only used in the siting of aquaculture operations to consider the presence or absence of nearby salmon-bearing streams. They are not used as a guide to establishing a comprehensive monitoring program Both the B.C. government and the Department have noted that, in their sensitivity to the siting of salmon farms, small streams containing wild salmon stocks are as important as rivers and contribute to the biodiversity of stocks.

No regular monitoring of wild salmon stocks adjacent to farm sites

30.63 The Department does not regularly monitor the status of wild salmon stocks in the vicinity of existing and proposed farm sites. B.C.'s Salmon Aquaculture Review concluded that native salmon stocks closest to salmon farms are at higher risk than stocks inhabiting areas farther from large farms, although some escaped salmon are known to travel long distances. The areas of greatest salmon farm activity are the northeast and west coasts of Vancouver Island. These areas have some stocks of all salmon species that are at risk, as noted in the Review.

The Department is not monitoring sensitive coastal habitat adjacent to existing and potential farm sites.

30.64 The Department has an active stock assessment program but is only monitoring selected stocks. It is taking action to protect the biodiversity of wild salmon stocks, as reported in the Auditor General's December 1999 Report, Chapter 20, Pacific Salmon: Sustainability of the Fisheries. However, there is only limited information on stocks along the north and central coasts, where some salmon farming sites may be relocated.

Inadequate monitoring for the presence of Atlantic salmon

30.65 The level of monitoring by the Department for the presence of escaped farm salmon is low, and the information available to the Department, the Province, and the public on escaped Atlantic salmon in B.C. is limited (see Exhibits 30.6 and 30.7.) The Atlantic Salmon Watch Program (ASWP) is the only dedicated program on the Pacific coast for the collection of information on escaped Atlantic salmon. It is funded by B.C., with staff and facilities provided by Fisheries and Oceans. While draft data from 1998–99 were available, the most recent publication was the 1997 annual report.

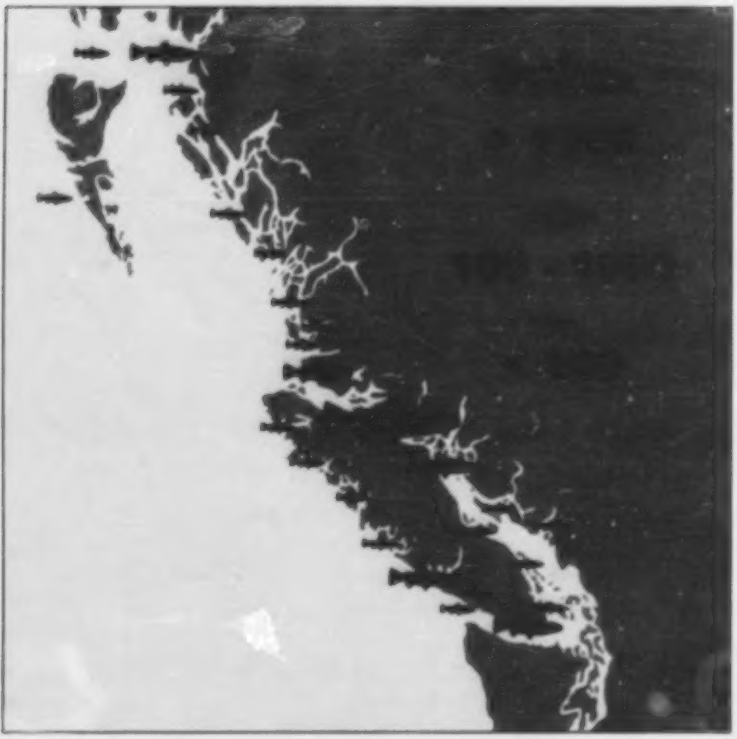
30.66 The ASWP involves sampling only when opportunities arise, and it is likely to underestimate by an unknown factor the number of Atlantic salmon in the wild. The primary sources of

Few streams have been surveyed for the presence of Atlantic salmon.

information on the presence of Atlantic salmon in freshwater systems are fishermen and biologists, who observe only a small percentage of stream areas potentially occupied by Atlantic salmon. The frequency of observation in each region generally reflects the level of effort, which has been greatest along the west coast of Vancouver Island. The completeness of the marine data is a concern. The commercial fishing industry is the primary source of information on numbers of Atlantic salmon in the marine environment. However, captures of Atlantic salmon are directly related to catch effort, and the commercial fishery has been reduced since 1996. As a result, recent data are highly variable and no trend over time is apparent.

Exhibit 30.6

Catch Data for Adult Atlantic Salmon in the British Columbia Marine Environment, 1988–1999



Source: Fisheries and Oceans, Atlantic Salmon Watch Program, 2000.

30.67 Relatively few streams have been surveyed for the presence of Atlantic salmon. Since 1995, the Department has conducted regular surveys to assess chinook salmon stocks in streams on the west coast of Vancouver Island. Sightings of Atlantic salmon are recorded during these surveys. The B.C. government has also conducted stream surveys that have recorded Atlantic salmon sightings. However, only a small number of streams are surveyed each year, and the work is confined primarily to Vancouver Island.

30.68 The Department informs us that there are currently four active survey programs for Atlantic salmon that will involve 30 to 35 river systems on Vancouver Island and the mainland. Other streams are monitored as part of the Department's normal stock assessment process. Due to the difficulty and expense of accessing remote areas, no streams have been surveyed on the mainland across from the Broughton Archipelago, where the majority of farms operate. Furthermore, monitoring is focussed on sites where Atlantic salmon have been observed, rather than extending over a wider geographical area.

30.69 The number of escaped Atlantic salmon in the northeast Pacific coastal waters may be increasing, although no clear trend has been established. Farm salmon routinely escape from their enclosures, either in small numbers or in large events as a result of net failures or tears. From 1991 to 1999, more than 345,000 Atlantic salmon, both juveniles and adults, reportedly escaped from B.C. salmon farms. While this number may appear relatively insignificant given the high level of production, even at this level of escapes Atlantic salmon are entering and reproducing in B.C. streams. In fact, some very large escapes have occurred. For example, in the United States on 19 July 1997, 370,000 Atlantic salmon escaped from a farm site in Rich Passage, Washington. Atlantic salmon have been caught off the coast of Washington, B.C. and Alaska, and their presence has been documented in 79 rivers and streams in B.C.

30.70 The Atlantic Salmon Watch Program has prepared a draft proposal for an enhanced monitoring framework to actively monitor the presence and abundance of Atlantic salmon. However, this framework will be triggered only if Atlantic salmon are reported through the existing program, in which reporting is passive. The enhanced framework would improve the quality of existing data, but it would not increase the number of streams surveyed. The Department has committed $30,000 for the program for this year. In addition, the program's coverage is being expanded through efforts at increasing public awareness of Atlantic salmon in B.C. rivers and streams.

30.71 The information gathered from the program includes data on the presence, distribution and number of Atlantic salmon, especially in streams containing weak or "at risk" stocks of wild salmon. This information is part of the evidence that the Department and the Province need to assess the cumulative effects of an expanded industry in the context of the present technology. Later, the information will be vital to assess the effectiveness of new regulations and permit requirements.

30.72 Given that escapes of Atlantic salmon from open net rearing facilities are expected to continue into the foreseeable future, Fisheries and Oceans should expand and improve the Atlantic Salmon Watch Program to provide the information necessary to assess the effectiveness of its regulatory and management activities.

Resolution of Federal-Provincial Issues

Action taken to co-ordinate efforts

30.73 Fisheries and Oceans and B.C. have shared responsibilities for managing salmon farming effects. In order to clarify their respective roles and responsibilities in developing the aquaculture industry, the federal and provincial governments entered into a Memorandum of Understanding in 1988. Under the agreement, the Department does not delegate responsibility to B.C. for managing the environmental effects of salmon farming. Both parties still look to

The presence of Atlantic salmon has been documented in 79 rivers and streams in B.C.

Exhibit 30.7

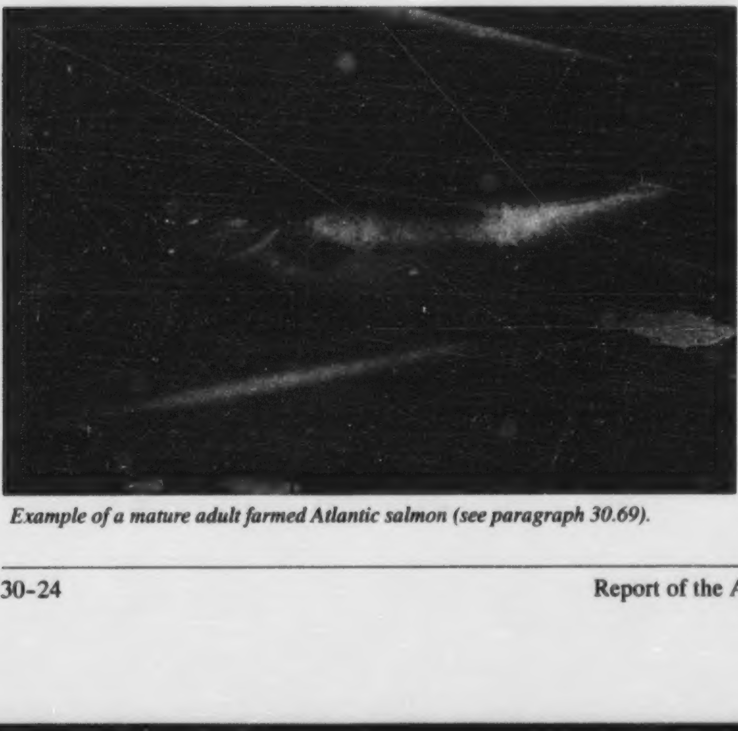
Sightings and Catch Data for Adult Atlantic Salmon in the British Columbia Freshwater Environment, 1990–1999

Source: Fisheries and Oceans, Atlantic Salmon Watch Program, 2000.

this agreement as a guide for division of responsibilities. Much of the agreement focusses on the need for co-ordination, which would be done through a joint management committee. While there is currently no management committee in place for the MOU, Fisheries and Oceans has been invited to participate in the Province's review process.

30.74 The Federal Aquaculture Development Strategy (FADS) called for the establishment of aquaculture implementation committees in each province. In B.C., this would basically have mirrored the management committee under the MOU. The establishment of such a committee and the implementation of FADS were delayed throughout the moratorium period. However, B.C. continued to examine salmon farming issues with the Department's participation.

30.75 Since announcing its Salmon Aquaculture Policy in October 1999, B.C. has taken a lead role in co-ordinating the development of standards for salmon farming. The Department is a member of the Province's Salmon Aquaculture Implementation Advisory Committee (a stakeholder committee), its Technical Advisory Group for co-ordination of research (which includes industry), its Fish Farm Review Committee (for relocations), and its Salmon Aquaculture Implementation Project Committee. However, the Department plays a mainly advisory role on these committees.



Example of a mature adult farmed Atlantic salmon (see paragraph 30.69).

30.76 B.C. is working to develop performance-based standards under its *Waste Management Act*. In co-operation with industry and with some involvement by Fisheries and Oceans, the Province is directing an Interim Monitoring Program to provide information for finalizing the standards. These call for use of chemical and physical indicators in the marine environment (outputs — for example, feces and uneaten food) to determine the health of communities of organisms adjacent to salmon-rearing pens, and for the regulation of effects rather than inputs (for example, fish food). There is potential conflict between B.C.'s planned performance-based standards, which will provide thresholds for demonstrated effects, and section 35(1) of the federal *Fisheries Act*, which prohibits the harmful alteration, disruption or destruction (HADD) of habitat unless authorization is given.

30.77 The Department recognizes that this potential conflict needs to be addressed and is currently reviewing the Province's draft of the performance-based standards. Through the Technical Advisory Group, the Department is providing input to the Interim Monitoring Program by commenting on study design, and is co-ordinating its own research.

More work is needed to resolve issues

30.78 As discussed earlier in this chapter, the Department does not have the information necessary to develop administrative criteria for identifying thresholds for HADD, resulting from salmon farming, and is currently not enforcing sections 35 and 36 of the *Fisheries Act* with respect to salmon farming operations. It is therefore planning to use the results of the Interim Monitoring Program along with the results of its research program and input of other agencies to determine how to apply the *Fisheries Act* to salmon farming.

30.79 The Department is not currently keeping pace with the provincial process of determining the effects of salmon farming and developing standards, and is having trouble co-ordinating its own involvement. It is important that the Department and the Province reach an agreement on the work to be done by each partner before consideration is given to lifting the moratorium.

30.80 Fisheries and Oceans should take immediate action to determine how the concept of "harmful alteration, disruption or destruction of habitat" will be applied to salmon farming and how the "deposit of a deleterious substance" will be addressed, so it can provide the Province of British Columbia with comprehensive comments on potential conflicts between federal legislation and provincial regulations.

Conclusion

30.81 Fisheries and Oceans has legislative responsibility to protect wild salmon from the effects of salmon farming, and it is managing on the basis that salmon farming poses an overall low risk to wild salmon and habitat. The Department is still evaluating information on the effects of salmon farming. It is not certain when it will have enough information to assess and to mitigate against cumulative environmental effects.

30.82 The Department lacks the scientific information it needs to ensure that its compliance monitoring and enforcement activities protect wild salmon and salmon habitat, in keeping with its legislative responsibilities. It is therefore unable to enforce the provisions of the *Fisheries Act* with respect to salmon farming. Furthermore, it is not ensuring that, where it has delegated responsibilities, the requirements of the *Fisheries Act* are being met.

30.83 The Department has not yet made adequate progress on identifying areas and priorities for research on the effects of Atlantic salmon interaction with wild salmon stocks. This work needs to be done to prepare for an environmental assessment of new proposals if the industry is to be expanded or to relocate existing farms.

The Department is not currently keeping pace with the provincial process.

30.84 The Department is now reviewing the federal regulatory framework that applies for aquaculture, with a view to creating more specific controls for aquaculture operations. However, it will need to apply the precautionary approach by:

- applying new knowledge from ongoing research in the development of new regulations;
- monitoring and enforcing compliance with new regulations over the long term; and
- assessing the effectiveness of these regulations in protecting wild salmon stocks.

30.85 Because the Department has not determined how to apply and enforce its legislation, it cannot play a leadership role in ensuring that the *Fisheries Act* is addressed in the development of provincial standards. The Department may, therefore, find itself in the position of enforcing federal legislation that conflicts with provincial regulations.

30.86 In summary, we have concluded that Fisheries and Oceans is not fully meeting its legislative obligations under the *Fisheries Act* while participating in the regulation of salmon farming in B.C.

Fisheries and Oceans' overall response: *Fisheries and Oceans is committed to sustainable development of the aquaculture industry, and the Department* *is meeting its challenges through a multi-pronged action plan.*

In August 2000, the Department announced its Program for Sustainable Aquaculture (PSA) —a $75 million investment over five years for sustainable aquaculture in Canada. This program invests in environmental and biological science ($13.75 million), strategic research and development ($20 million), measures to ensure the quality and safety of fish and fish products ($20 million), and an improved regulatory and management framework for the aquaculture sector ($21.5 million). These program enhancements will increase resources in the Pacific Region to effectively conduct fish habitat and environmental assessments of proposed aquaculture developments as well as monitor compliance with, and enforce, its regulatory responsibilities. Indeed, the Department has recently advised all B.C. salmon farmers that monitoring of their sites will increase to better ensure compliance with the Fisheries Act*.*

The PSA will also enable the Department to build on the existing and growing knowledge base of the potential ecosystem impacts of an expanding salmon industry. Work is already under way by Fisheries and Oceans officials in both the region and in headquarters to prioritize and co-ordinate research initiatives with others, including the federal government's Aquanet Centre of Excellence, the Province of British Columbia's recently announced aquaculture research trust fund, and with ongoing initiatives of the other provinces through the Canadian Council of Fisheries and Aquaculture Ministers Task Group on Aquaculture.

As part of a recent review of the legislative, regulatory and policy framework for aquaculture, prepared by the Office of the Commissioner for Aquaculture Development, the Department is also placing a priority on further addressing a number of issues related to environmental and habitat protection. These actions include refining the application of section 35 of the Fisheries Act *(harmful alteration, disruption and destruction of habitat) as it applies to aquaculture operations, as well as consideration, in collaboration with Environment Canada, of the development of regulations under section 36 of the* Fisheries Act *to control the deposit of any deleterious substances from aquaculture operations. In addition, under the auspices of the Canadian Council of Fisheries and Aquaculture Ministers, the Department is working closely with provincial departments responsible for aquaculture to harmonize federal and provincial roles and to reduce unnecessary duplication of effort, thereby freeing resources to focus on priorities and gaps. Finally, the Department is working with provinces and industry to establish a national aquatic animal health program aimed at reducing the incidence of disease and the severity of the impacts. Important environmental outcomes of this program include improved aquatic animal health in wild and farmed populations and further reductions in antibiotic and pesticide use.*

In response to the concern raised regarding the escapement of farmed fish, escapes from B.C. fish farms now represent only 0.3 percent of the total harvest. The Department is committed to working with the industry and its provincial counterparts to further reduce the risk of future escapes. In B.C. the provincial Ministry of Agriculture, Food and Fisheries has recently announced more stringent measures to help prevent fish farm escapes. The revised regulations require enhanced escape prevention and response plans, expanded reporting requirements, and record keeping. Fisheries and Oceans is committed to such preventive measures and will continue to work to support these and other efforts by the provincial government.

As to the specific recommendation to expand and improve the Atlantic Salmon

Watch program, the Department has provided additional funding to the Program in 2000-2001 and the number of streams surveyed under its auspices has been increased.

Given that Atlantic salmon numbers are small and there are thousands of rivers and streams in British Columbia, the chances of finding salmon are low. The extensive funding required for comprehensive monitoring would divert investments otherwise available to restore habitat and protect wild stocks — activities with proven benefits.

Fisheries and Oceans' aquaculture action plan demonstrates its serious commitment to developing the aquaculture sector in a sustainable manner that increases awareness of, and addresses, the potential environmental impacts associated with salmon farming.

About the Audit

Objective

The audit objective was to determine whether Fisheries and Oceans, as the department responsible for the conservation and protection of wild salmon stocks, is meeting its obligations under the *Fisheries Act,* the *Oceans Act* and other legislation while participating in the regulation of the salmon farming industry in B.C.

Criteria

We expected that the Department would have:

- ensured that its roles and responsibilities in regulating the salmon farming industry in B.C. were consistent with its mandate for the conservation and protection of wild Pacific salmon as defined in key legislation such as the *Fisheries Act* and the *Oceans Act;* and that where agreements are in place for other agencies to administer provisions of the *Fisheries Act*, accountability requirements for these provisions were clearly articulated;
- conducted research and acquired scientific information on the impact of salmon farming operations on the conservation and protection of wild Pacific salmon stocks and their habitat, with special reference to their sustainability and the protection of their genetic diversity, and made such information available to decision makers, stakeholders and the general public;
- used the results of targeted research and related scientific information to support the development of internal policies and strategies relative to the Department's participation in the regulation of salmon farming activities, and ensured that such policies and strategies were consistent with its responsibilities for the conservation and protection of wild Pacific salmon;
- developed or participated in the development of regulations/standards pertaining to salmon farming that are consistent with legislation and departmental policies, and made the necessary internal and external co-ordination arrangements to accommodate this process; and
- ensured that such regulations/standards were enforced directly, or monitored regularly through accountability provisions in administration agreements with other agencies.

Approach

In order to focus on the Department's need for compatibility of salmon farming management with its core responsibilities for wild salmon management, we asked ourselves three questions:

- Has Fisheries and Oceans identified and evaluated the effects of salmon farming on wild stock management by following a risk management plan?
- Has Fisheries and Oceans formulated an action plan to deal with salmon farming, together with a strategy for its integration into the wild salmon management plan(s) to ensure consistency with the established principles of conservation and the precautionary approach?

- If such an action plan exists, is Fisheries and Oceans implementing its elements?

Our audit included meetings and conversations with departmental staff in Ottawa, in the regional office in Vancouver, and in district offices and research facilities. We reviewed Fisheries and Oceans files and documentation, and made formal requests through correspondence or e-mail for specific information from departmental staff in headquarters and the regional office. A large amount of material was obtained through the review of external and internal reports and from government and other Web sites and by participating in scientific conferences on Pacific salmon. We interviewed some senior officials in the provincial government and obtained from them information relating to federal-provincial activities.

Audit Team

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Report of the
Auditor General of Canada to the House of Commons – 2000
Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6
5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter	
15	Health Canada – First Nations Health: Follow-up
	Other Observations
16	Follow-up of Recommendations in Previous Reports
17	Other Audit Observations

Volume 3 – December 2000

Chapter	
	Matters of Special Importance – 2000 Foreword and Main Points
18	Governance of Crown Corporations
19	Reporting Performance to Parliament: Progress Too Slow
20	Managing Departments for Results and Managing Horizontal Issues for Results
21	Post-Secondary Recruitment Program of the Federal Public Service
22	Development of the Universal Classification Standard: A Follow-up
23	Information Technology: Acquisition of Goods and Services
	Protecting Health and Safety
24	Federal Health and Safety Regulatory Programs
25	Canadian Food Inspection Agency – Food Inspection Programs
26	Health Canada – Regulatory Regime of Biologics
27	Canadian Nuclear Safety Commission – Power Reactor Regulation
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29	Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31	Fisheries and Oceans – Fleet Management
32	National Defence – Defence Support Productivity: A Progress Report
	Other Observations and Appendices
33	Follow-up of Recommendations in Previous Reports
34	Other Audit Observations
35	Sustainable Development Strategy for the Office of the Auditor General

Report of the
Auditor General of Canada
to the House of Commons

Chapter 31
Fisheries and Oceans – Fleet Management

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

© Minister of Public Works and Government Services Canada 2000
Cat. No. FA1-2000/3-31E
ISBN 0-662-29590-0
Copies françaises aussi disponibles

Chapter 31

Fisheries and Oceans

Fleet Management

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 31-5

Introduction 31-7

The Department's mandate for the fleet 31-7
The 1990s — a period of change in the fleet 31-8
What the fleet includes 31-8
Focus of the audit 31-9

Observations and Recommendations 31-11

Fleet Mandate, Accountability and Stewardship Reporting 31-11
A clear mandate to operate a fleet 31-11
Organization and accountability 31-12
Key elements in implementing the "client service provider" model 31-12
Program performance expectations are short-term, unclear or unrealistic 31-14
Long-term perspective needed for planning and funding 31-16
Arrangements not documented 31-17
Current method of allocating costs discourages vessel usage 31-17
Inadequate information to monitor and account for fleet performance 31-18
Need to improve stewardship reporting 31-19
The Department's strategic plan — the roadmap forward? 31-19

Vessel Life Cycle Management 31-20
Life cycle management — a government requirement since 1995 31-20
Slow progress in implementing life cycle management 31-20
Assessing and planning fleet requirements 31-21
Accountability for cost-effective fleet operations 31-22
Operating without timely, reliable and integrated information 31-23
Maintenance — the need for a national, fact-based approach 31-24
Costliness of vessels in lay-up status 31-24

Managing the Fleet's Human Resources 31-25
The fleet's single largest operating expense 31-25
Need for a human resource plan 31-26
The impact of human resource issues on operations 31-26
Ensuring that properly skilled personnel are available 31-28
Shore-based support is too large given the current size of the fleet 31-29

Conclusion 31-30

About the Audit 31-31

Exhibits

31.1 The Fleet as a Client Service Provider 31-7
31.2 Changes in the Fleet Inventory of Vessels, 1990–2000 31-9
31.3 Age Profile of the Fleet of 41 Large Vessels Funded for Future Operations 31-10
31.4 Direct Cost of Providing the Fleet Service 31-10
31.5 Reporting and Accountability Relationships for Fleet Management 31-13
31.6 Mid-Life Refit of the *CCGS Cygnus* 31-16
31.7 Example of a Cost-Sharing Arrangement in the Newfoundland Region 31-18
31.8 Shore-Based Positions that Directly Support the Fleet 31-25
31.9 Ships' Personnel by Employment Status 31-29

Fisheries and Oceans

Fleet Management

Main Points

31.1 In our opinion, Fisheries and Oceans is not managing its fleet in a cost-effective manner. There is a wide variation in practices and procedures employed by the five regions where the fleet operations are controlled. With each region having its own operating practices, procedures and support, the Department is missing opportunities for greater flexibility in sharing resources and for better productivity in providing the fleet service.

31.2 We observed the following problems in the key management practices that are important to a cost-effective fleet activity:

- The Department has not established clear, concrete, realistic and agreed-upon performance expectations for the fleet.
- The funding horizon has been only one year, even though the fleet is a capital-intensive activity with high fixed costs.
- There is a lack of service accords clearly establishing the performance and funding arrangements between the Department's programs and the fleet.
- Internal budgetary processes do not support accountability for the fleet activity.
- Information systems are not integrated and do not provide managers with reliable, timely information on performance and cost.
- The method of allocating costs to programs discourages vessel use.
- The fleet does not employ a life cycle approach to managing its vessels.
- The fleet is not adequately managing its single largest operating expenditure, its human resources.
- Shore-based support is too large, given the current size of the fleet.
- There are weaknesses in stewardship reporting to Parliament.

31.3 As the Department addresses these issues in an order of priority (they cannot all be addressed at once), it also needs to consider a longer-term strategy to renew its aging fleet. Such a strategy would need to take into consideration the changing nature of program requirements, the impact of technological change and the potential for alternative means of acquiring the services needed.

Background and other observations

31.4 At 31 March 2000, the fleet consisted of 144 vessels (122 were operational for some period during 1999–2000), including vessels as small as an 8-metre multi-tasked utility vessel to a 111-metre heavy gulf icebreaker. The fleet plays a key role in providing services such as aids to navigation, icebreaking, the marine component of search and rescue, and marine pollution prevention and response. It also supports the Department in the conduct of fisheries science and enforcement, hydrography, oceanography and other marine sciences.

31.5 In 1999–2000, Fisheries and Oceans spent approximately $229 million for operations, maintenance and capital replacement of the fleet. In addition, an estimated $52 million was spent on shore-based support.

31.6 The fleet's human resources are its single largest operating expense. At 1 April 2000, there were 756 officers and 1,308 crew assigned to vessels, although the number of people varies during the year depending on seasonal requirements. In addition, we estimate conservatively that there are about 447 full-time-equivalent shore-based positions that provide direct support to the fleet and about 55 positions associated with the Canadian Coast Guard College that provide training support directly to the fleet.

31.7 Our audit focussed on the 47 large vessels that operated for some period during 1999–2000, vessels in lay-up status, and the sea- and shore-based people directly involved in managing and operating the fleet. The large vessels annually incur between 70 and 80 percent of the operating costs of the fleet.

31.8 Since 1994, the fleet has had to deal with significant fiscal restraint, the merger of the former Transport Canada Coast Guard fleet with the science and fisheries enforcement fleets of Fisheries and Oceans (1995), and further fiscal restraint associated with the merger (1996 to the present). We had expected to find some management issues, given the amount of change the fleet has undergone; however, we are concerned about the number and seriousness of the issues we found. We believe that the resolution of these issues requires management's prompt action.

31.9 While the issues raised in this chapter are considerable and represent a challenge to management, the Department deserves credit for several initiatives that are important to the delivery of the fleet activity. Most notable is the ongoing implementation of the International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM Code). Also, during 1999–2000, program and fleet managers identified the existing vessels that could be afforded, within available funding, while providing the best possible service. This exercise did not address the problems we identified above; however, it could bring some stability to the environment in which the fleet operates.

The Department's overall response to this chapter follows paragraph 31.139. Fisheries and Oceans accepts our findings and indicates that a study is under way to develop strategic options for fleet management. Following completion of the study, the Department intends to develop an action plan addressing seven specific areas that encompass the issues we have identified.

Introduction

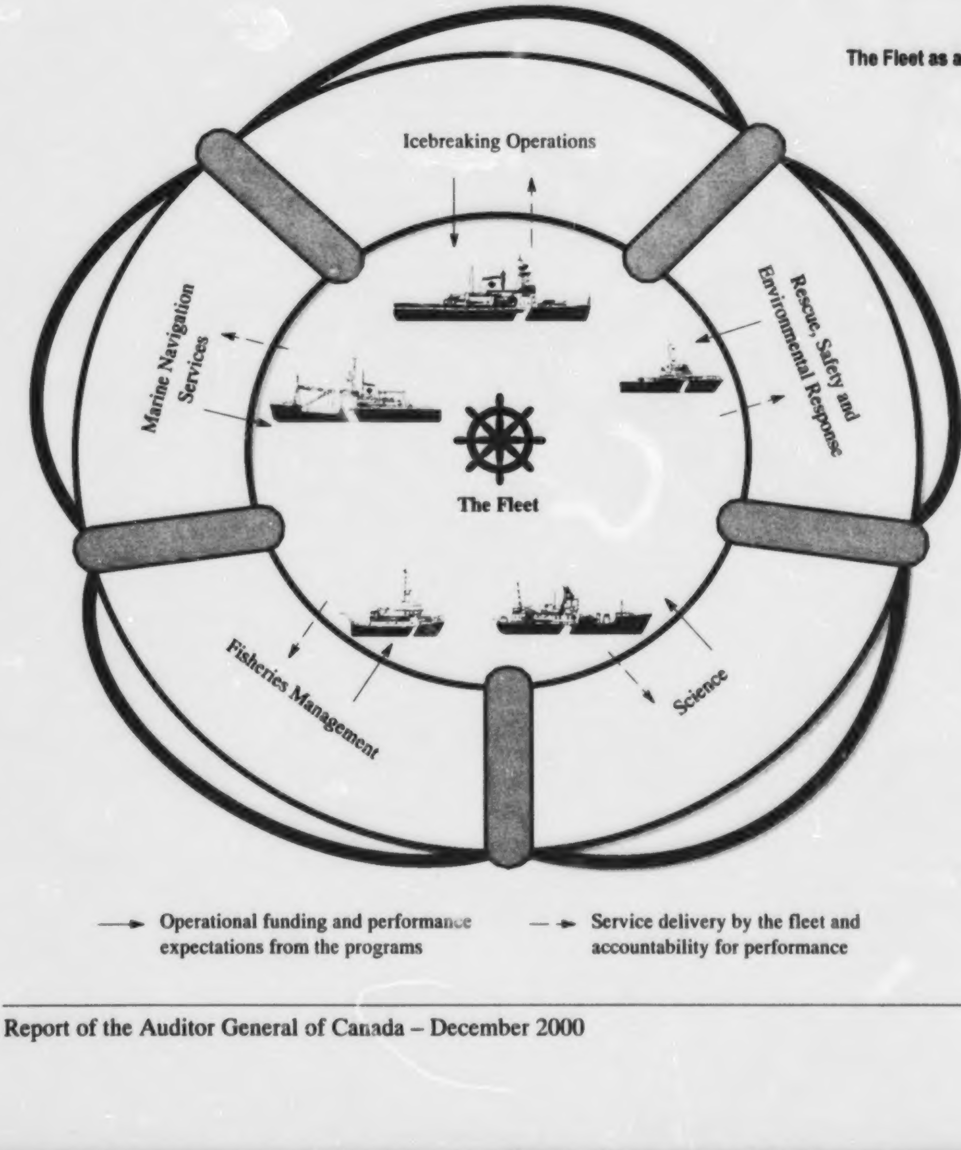
The Department's mandate for the fleet

31.10 The *Oceans Act* makes the Minister of Fisheries and Oceans responsible for providing a coast guard service, including aids to navigation, icebreaking, the marine component of search and rescue, and marine pollution prevention and response. In addition, the *Oceans Act* authorizes the Minister to maintain and operate ships for the purpose of conducting fisheries science, hydrography, oceanography and other marine sciences. The *Fisheries Act* and the *Coastal Fisheries Protection Act* provide for the Department to have a presence on the oceans for fisheries management purposes. To help provide these services, the Department operates a fleet of vessels.

31.11 The fleet is a "client service provider" for the Department's programs, which in turn provide service to other internal and external users (see Exhibit 31.1). The costs of vessel operations and crewing are charged to these programs or business lines (the internal users pay for direct operational costs). The costs of fleet shore-based staff,

Exhibit 31.1

The Fleet as a Client Service Provider


Icebreaking Operations
Rescue, Safety and Environmental Response
Science
Fisheries Management
Marine Navigation Services
The Fleet
Operational funding and performance expectations from the programs
Service delivery by the fleet and accountability for performance

capital acquisitions and maintenance of vessels are reported as a separate business line — fleet management.

31.12 The fleet also provides support to other government departments and agencies, and to other governments and international organizations. However, it is not regularly funded for such activities. In addition, the fleet helps to assert Canada's sovereignty in the Arctic through its icebreaking.

The 1990s was a period of significant change for the fleet.

The 1990s — a period of change in the fleet

31.13 Since our last audit of the Canadian Coast Guard fleet in 1989, there have been many changes. The fleet has been the subject of studies and reviews, the Coast Guard has merged with Fisheries and Oceans, and funding has been greatly reduced.

31.14 In 1990, the government received a report on an independent review of all government fleet activity, including the two largest civilian fleets, the Coast Guard — then a part of Transport Canada — and the Fisheries and Oceans fleet. Some key recommendations of this review were that the government should:

- continue to maintain separate fleets;
- establish an interdepartmental committee for program co-ordination and review to improve vessel utilization; and
- charge service recipients according to the incremental cost of use.

31.15 In 1994, funding of both the Coast Guard and Fisheries and Oceans was significantly reduced through Program Review. In 1995, the Coast Guard was merged with Fisheries and Oceans, making the latter responsible for managing the Government of Canada's largest civilian fleet.

31.16 The post-merger period created significant challenges in bringing together two fleets that operated differently and had different corporate cultures. Further reductions in funding were approved based on anticipated savings from the merger.

31.17 Most recently, on 3 April 2000, the Coast Guard headquarters, including marine programs and fleet management, was reorganized. The objectives of the reorganization were to improve service to the regions, eliminate overlap between the Coast Guard and the rest of the Department's headquarters, and finalize the organizational structure to facilitate staffing on an indeterminate basis.

What the fleet includes

31.18 There is not just a single national Fisheries and Oceans fleet; fleet operations are very decentralized. While fleet headquarters issues guidance and directions on standards and policy, each region operates according to its own practices and management preferences. Each region deploys, maintains and operates the vessels assigned to it.

31.19 At 31 March 2000, the fleet consisted of 144 vessels (122 of which operated for some period in 1999–2000). Vessels range from an 8-metre multi-tasked utility vessel to a 111-metre heavy gulf icebreaker. This current audit was directed at only the 47 large vessels that operated for some period during 1999–2000 and those vessels in lay-up (non-operational) status. The large vessels annually incur between 70 and 80 percent of the fleet's operating costs. Most of the smaller vessels are primarily single-purpose search and rescue lifeboats, and they operate in quite a different way from the rest of the fleet. In addition, most of the Department's programs operate boats measuring under eight metres. These boats are not considered part of the fleet and were not included in the scope of this audit.

31.20 In 1990, the Coast Guard and Fisheries and Oceans fleets had a combined total of 198 vessels. The Department has just completed a "Base

Fleet" exercise, which recommended that only 108 of the remaining 144 vessels be funded to operate annually. Forty-one of the 108 vessels are considered large. Those not funded will be held in lay-up status or decommissioned and eventually sold. Exhibit 31.2 summarizes the changes in the inventory of vessels since 1990.

31.21 The average age of the 41 large vessels funded for future operations is 22 years. Given that the Department considers 30 years to be the effective useful life of its vessels, the existing asset base is growing old; many classes of vessels are nearing the end of their useful lives. With its vessels aging at a time when capital funds are not readily available, the Department is confronted with a serious challenge — its ability to renew its fleet and provide the services its programs require. In 1999, the Department estimated that the replacement cost of all of the large vessels was $2.2 billion. Furthermore, the Department has stated that the increased cost of operating and maintaining old vessels reduces the amount of funding that it could use to provide additional service to departmental programs. Exhibit 31.3 shows the age of the 41 large vessels in the fleet that are to be funded for future operations. Certain classes of vessels are aging together; all 5 of the ice-strengthened navigational aids tenders, 3 of 11 icebreaking navigational aids tenders and 1 of the 5 icebreakers are over 30 years old.

31.22 For the year ended 31 March 2000, the Department estimated that the direct cost of providing the fleet service was $281 million (see Exhibit 31.4).

31.23 In support of the fleet, the Department also incurs indirect costs for finance, personnel and other administrative and technical support.

Focus of the audit

31.24 Our audit focussed on the management of the 47 large vessels that operated for some period during 1999–2000, vessels in lay-up status, and the sea- and shore-based staff directly involved in managing and operating the fleet. This included an examination of the clarity of the mandate for the fleet, the Department's method of determining the nature and level of service expected, and accountability relationships involved in delivering the service. We excluded the supply system and the management of the shore-based infrastructure such as wharves.

31.25 Our objective was to assess the extent to which the fleet has provided cost-effective support service to the

Exhibit 31.2

Changes in the Fleet Inventory of Vessels, 1990–2000

	1990	1994	1996	2000	
Pre-Merger Department	**Inventory**	**Inventory**	**Post-Merger Total Inventory**	**Base Fleet Funded Vessels**	**Base Fleet Total Inventory**
Canadian Coast Guard(1)	93	91	88	74	90
Fisheries and Oceans(2)	105	79	81	34	54
Total	**198**	**170**	**169**	**108**	**144**

(1) Post-merger split shows vessels primarily tasked to support the marine programs.

(2) Post-merger split shows vessels primarily tasked to support science and fisheries enforcement.

Source: Fisheries and Oceans

Fleet" exercise, which recommended that only 108 of the remaining 144 vessels be funded to operate annually. Forty-one of the 108 vessels are considered large. Those not funded will be held in lay-up status or decommissioned and eventually sold. Exhibit 31.2 summarizes the changes in the inventory of vessels since 1990.

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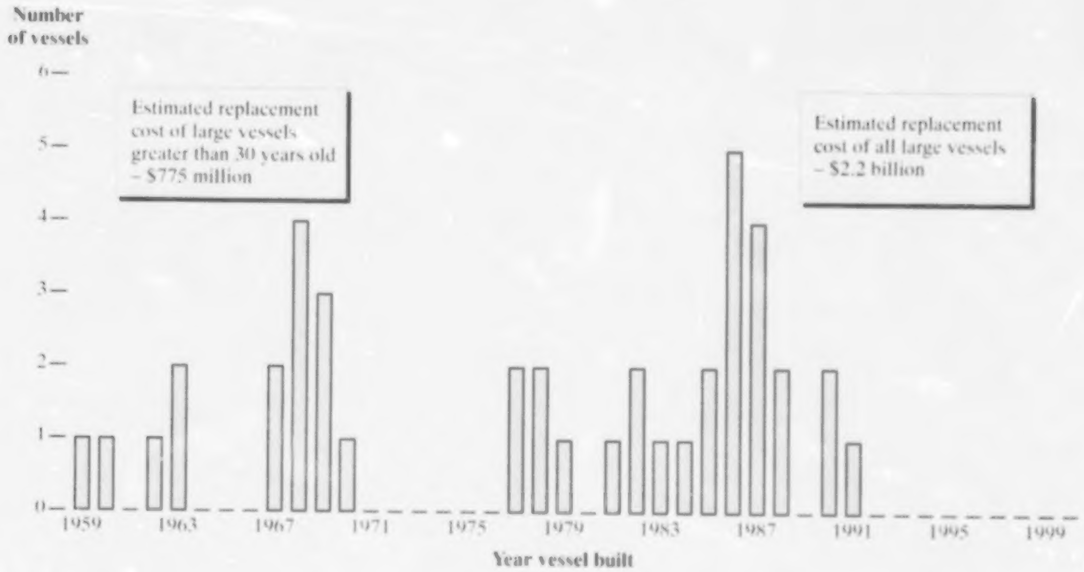
Source: Fisheries and Oceans

Exhibit 31.3

Age Profile of the Fleet of 41 Large Vessels Funded for Future Operations



Source: Fisheries and Oceans

Exhibit 31.4

Direct Cost of Providing the Fleet Service

Year Ended 31 March 2000 ($ millions)

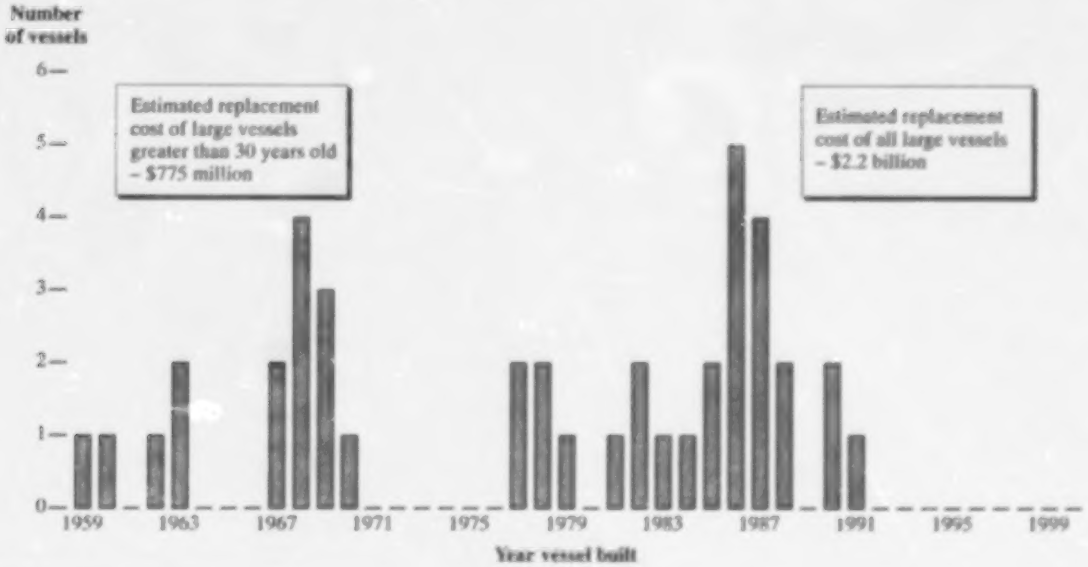
Vessel costs		
Salaries	$ 108	
Contributions to employee benefit programs*	22	
Operating	35	
Vessel costs allocated to the programs	165	
Capital acquisitions	39	
Maintenance and refit	25	
		229
Shore-based support costs		
Salaries	28	
Contributions to employee benefit programs*	6	
Operating	18	
		52
Direct cost of the service		**$ 281**

Source: Fisheries and Oceans

* Estimated at 20 percent of salaries

Exhibit 31.3

Age Profile of the Fleet of 41 Large Vessels Funded for Future Operations



Estimated replacement cost of large vessels greater than 30 years old – $775 million

Estimated replacement cost of all large vessels – $2.2 billion

Source: Fisheries and Oceans

Exhibit 31.4

Direct Cost of Providing the Fleet Service

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Operating	18	
		52
Direct cost of the service		**$ 281**

* Estimated at 20 percent of salaries

Source: Fisheries and Oceans

Department's programs and those of other government departments. We did not audit the delivery of the Department's programs, including its marine programs.

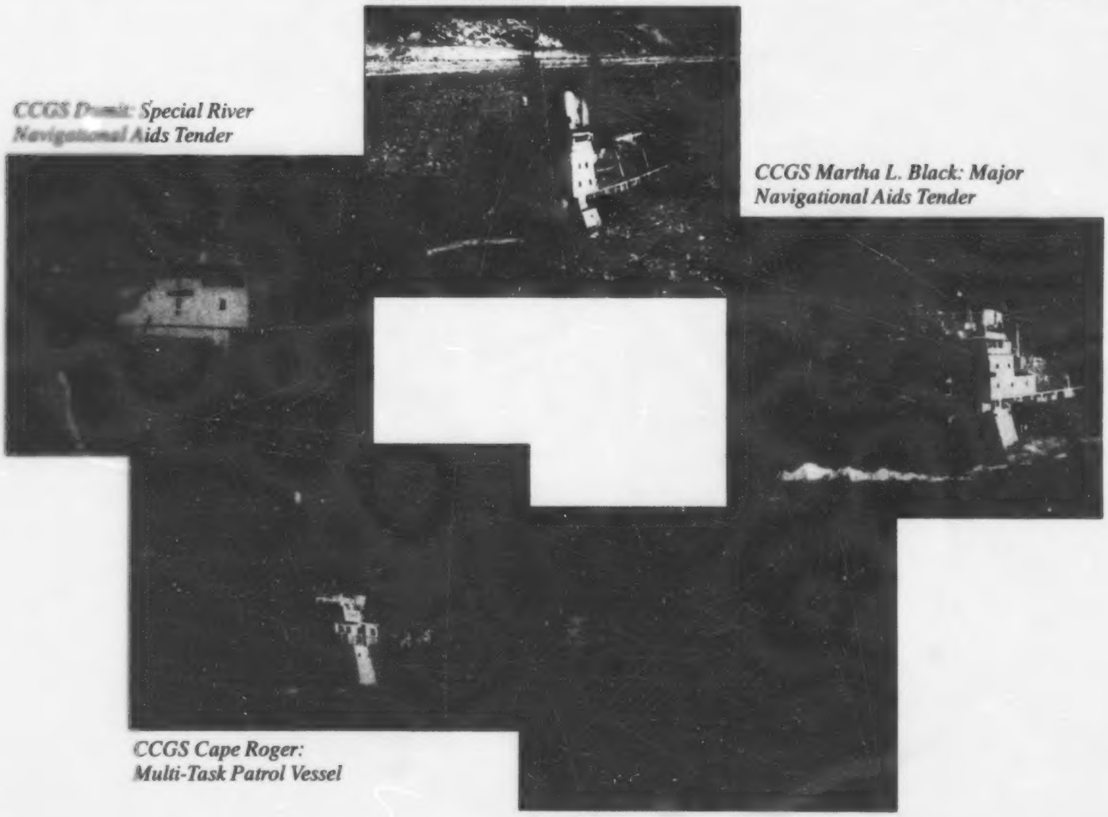
Observations and Recommendations

Fleet Mandate, Accountability and Stewardship Reporting

A clear mandate to operate a fleet

31.26 The Department's mandate to operate and maintain a fleet of vessels to support the delivery of its programs is laid out in the *Oceans Act*. In addition, the *Fisheries Act* and the *Coastal Fisheries Protection Act* provide for the Department to have a presence on the oceans for fisheries management purposes. The fleet supports all the Department's priorities, including managing and protecting fisheries resources, protecting the marine and freshwater environment, understanding oceans and aquatic resources, maintaining maritime safety, and facilitating maritime commerce and ocean development. The *Oceans Act* also requires the Minister of Fisheries and Oceans to ensure that services to achieve the "safe, economical and efficient

Examples of the types of large vessels that operated in 1999–2000 (see paragraph 31.24).



CCGS Des Groseilliers: Medium Gulf and River Icebreaker

CCGS Dumit: Special River Navigational Aids Tender

CCGS Martha L. Black: Major Navigational Aids Tender

CCGS Cape Roger: Multi-Task Patrol Vessel

CCGS Teleost: Science Research and Survey Vessel

Source: Fisheries and Oceans

movement of ships in Canadian waters" are provided in a cost-effective manner.

Organization and accountability

Reporting relationships are complex.

31.27 Under the Department's matrix management model, the fleet is not a stand-alone organization within the Department. The fleet's operations in each region report directly to one of five regional directors general. They have a functional reporting relationship to the Commissioner of the Coast Guard on national policy matters and are also expected to consult and collaborate with the Commissioner on resourcing and performance. Both the Commissioner and the regional directors general report directly to the Deputy Minister. Exhibit 31.5 shows this complex reporting relationship.

31.28 The Commissioner is responsible for setting national objectives, policies, standards and procedures while monitoring the performance of the fleet operations in the regions, and also for all capital acquisition decisions and major refits. As the Assistant Deputy Minister, Marine, the Commissioner also has functional responsibilities for the marine programs (marine navigation services, marine communications and traffic services, icebreaking operations and rescue, safety and environmental response). Consequently, the Commissioner has direct authority and responsibility for fleet headquarters but no direct authority over the operations of vessels in the fleet.

31.29 The regional fleet operations are responsible for organizing and managing the delivery of activities in each region according to national and regional program priorities and within national performance parameters. Regional directors general, through the Coast Guard's regional directors, have direct authority and responsibility for vessel operations. They are accountable for organizing and managing the resources assigned to the region in accordance with assigned authorities, performance standards and results agreed to with the respective assistant deputy ministers (including the Commissioner).

31.30 The fleet's clients — the programs — are organized in a similar manner to the fleet (that is, regional directors general are responsible for program delivery while assistant deputy ministers set national priorities and performance expectations). Therefore, for any one program serviced by the fleet, there will be a number of players at headquarters or in the regions, using, providing or supporting services.

Key elements in implementing the "client service provider" model

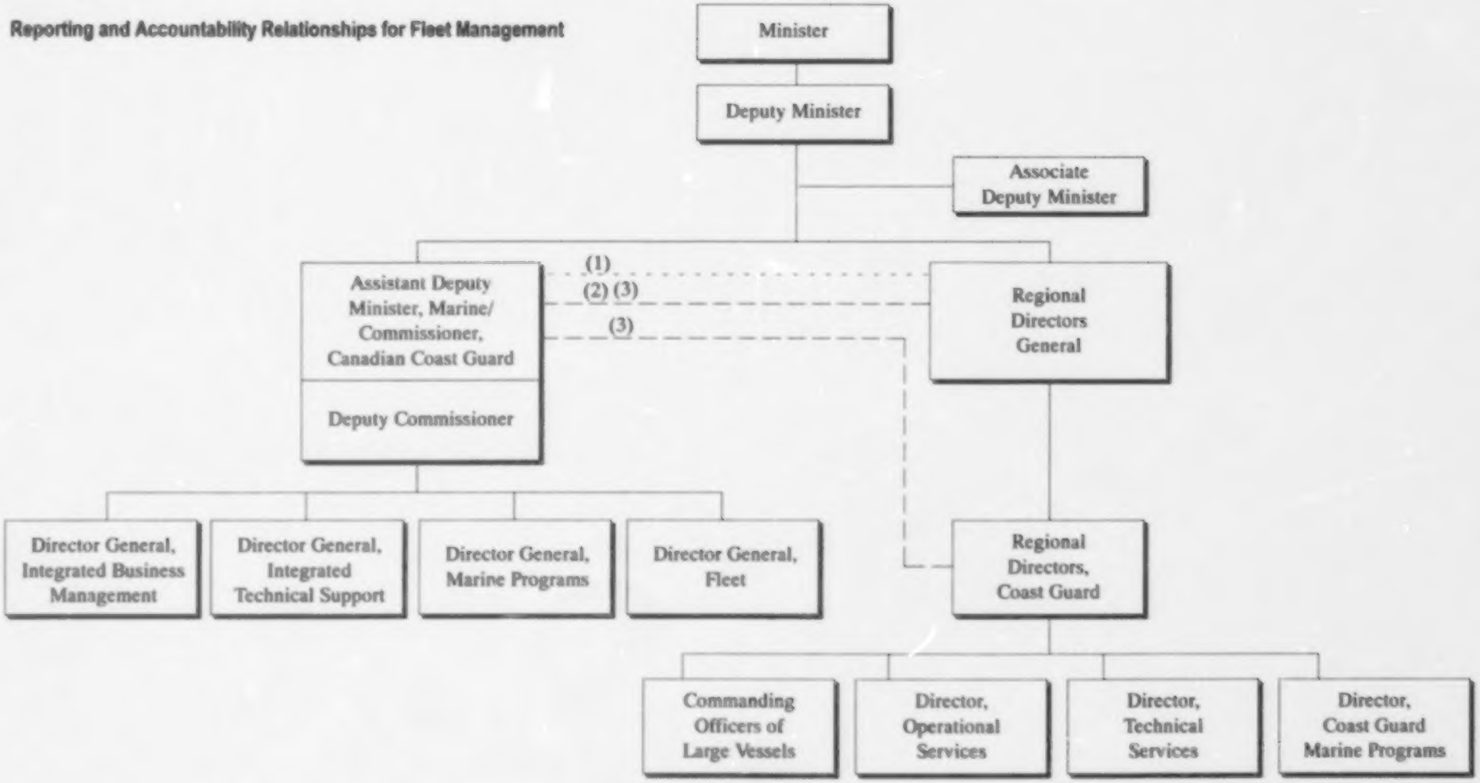
31.31 The Department manages the fleet through a "client service provider" model, in which the direct operating costs of vessels and crews are allocated to the programs that are recipients of the service. The large vessels of the fleet are generally used as multi-tasked platforms (that is, they can service the needs of more than one program). The client service provider model can allow for a form of internal accountability similar to that in a commercial arrangement (there is a type of internal market test of the service, although the capital, refit and maintenance costs of the vessels are not considered). Besides operating in a complex organization, the fleet is capital-intensive, with a high percentage of fixed annual costs (costs that cannot be avoided over the short term).

31.32 To work effectively, the client service provider model requires the following key elements:

- clear, concrete, realistic and agreed-upon performance expectations;
- long-term planning and funding to carry out the requested service;
- clear documentation of arrangements between the user and the provider;

Exhibit 31.5

Reporting and Accountability Relationships for Fleet Management


Minister
Deputy Minister
Associate Deputy Minister
Assistant Deputy Minister, Marine/ Commissioner, Canadian Coast Guard
Deputy Commissioner
(1)
(2) (3)
(3)
Regional Directors General
Director General, Integrated Business Management
Director General, Integrated Technical Support
Director General, Marine Programs
Director General, Fleet
Regional Directors, Coast Guard
Commanding Officers of Large Vessels
Director, Operational Services
Director, Technical Services
Director, Coast Guard Marine Programs

[1] The Commissioner, in consultation with regional directors general, suggests resource allocation to regions based on regionally costed operational plans.

[2] The Commissioner, in collaboration with regional directors general, establishes a system to monitor performance and report on results.

[3] The Commissioner provides functional direction to regional directors general (and regional directors) regarding the national policy framework and national standards.

Source: Fisheries and Oceans

- fleet costing policies and practices that encourage the use of the lowest-cost alternative to acquire service while meeting departmental objectives; and

- information systems and practices to monitor and account for actual performance of the fleet in terms of service and cost.

31.33 As noted in the following sections, we found that many of these key elements are weak or missing.

Program performance expectations are short-term, unclear or unrealistic.

Program performance expectations are short-term, unclear or unrealistic

31.34 In order to achieve a program's expected outcome, fleet managers must know what service and how much service they are expected to provide with the funds allocated by program managers. These expectations must be clearly identified, concrete, realistic and agreed-upon by user and provider, and performance must be monitored and reported. However, we found that performance expectations are often short-term, unclear or unrealistic given the funding that programs have available or given the configuration and capabilities of the existing fleet. In addition, where there are short-term expectations for the fleet, they cannot be linked to the program's ultimate expectations, as the latter often are not articulated. We reviewed the stated performance expectations of the key users of the fleet.

31.35 **Offshore search and rescue.** Canada's responsibility for offshore search and rescue is defined within zones off our coasts. In 1993, the search and rescue program developed national level-of-service requirements that specified the type of vessel and equipment required for offshore search and rescue. The requirements also set out the need to have trained search and rescue specialists aboard any vessel responsible for offshore search and rescue. However, none of the Department's vessels have all of the essentials specified in the national level-of-service requirements. Some vessels do not carry the search and rescue equipment specified as required. Some vessels do not have appropriately trained rescue specialists aboard. The standard requires that vessels be deployed at sea within the offshore zone when assigned to primary search and rescue duties. Yet we found that vessels are often tied to the wharf while they are in offshore search and rescue status.

31.36 The Department does not measure all of the gaps in the search and rescue coverage. Where it does measure them, we noted inconsistencies in the measurement approach. Some regions, Newfoundland for example, reported a gap in coverage when the primary search and rescue vessel left the zone, although one or more fleet vessels still operated in the zone. Other regions, like Pacific, considered that fleet vessels performing other tasks in the zone were also covering search and rescue requirements. Inconsistencies in the way that gaps in coverage are measured make meaningful analysis difficult. The Department does not publicly report the extent of these shortfalls, the reasons for them, or their impact on marine safety. The Department has informed us that it does not believe that offshore marine safety has been negatively affected by these shortfalls.

31.37 **Icebreaking.** The level-of-service requirements for icebreaking specify which vessels are needed and when. The Icebreaking program held consultations with user groups and then developed a specific schedule for all vessels assigned to the Arctic and southern icebreaking operations. Essentially, the exercise determined the number, type and availability of vessels that the Department could afford for icebreaking duties. While this consensus building has strengthened the planning process, it does not provide assurance to users that their expectations will be met.

31.38 Marine Navigation Services. The Marine Navigation Services program uses navigational aids tenders to place, service and repair fixed and floating navigational aids. Based on international commitments made by Canada, the program has an overall performance target for existing navigational aids of 99 percent operational reliability. In efforts to reduce costs, the program has introduced many changes to the navigational aids and the way they are maintained. All of these changes were designed to reduce the frequency of visits by fleet vessels to maintain navigational aids. Unfortunately, not all of these changes have worked out as planned; the fleet is called upon to visit these aids more frequently than anticipated. However, funding has already been reduced based on the anticipated savings from this new approach.

31.39 The Department recently carried out a study of the five types of aids that are used year-round. The study found that three types met the standard for reliability. Lighted floating aids and fixed aids whose lights operate 24 hours a day did not meet the standard. We noted during this audit that certain navigational aids in certain geographical areas are less reliable than others. The Department is currently assessing the implications of these results, but has yet to determine their impact on vessel use.

31.40 Science. The Science program annually determines its number of sea-days by estimating the number of days it can "buy" with the funds available for the year and the research vessels it traditionally has available for its work. There is some imprecision in this process because, during the year, some regions revise the estimated cost of providing the service. These revisions can be due to departures from the initial plan (for example, the use of higher-cost vessels than planned) or to higher operating costs than originally estimated by the fleet.

31.41 For the longer term, the Science program provided the fleet with a report entitled "2005 Science Strategic Plan Platforms", dated October 1998. This was a high-level summary of the program's need for support and some of the challenges it faces, given the fleet's current capabilities. The report also summarized vessel capabilities and provided potential scenarios for the replacement or modification of vessels.

31.42 While the Science program has provided more long-term information on its needs than other programs, we still noted areas for improvement. For example, the Science program is reassessing the Department's role in Arctic science. At this point, the Department does not engage in significant amounts of Arctic science. The program has not told the fleet how many days it potentially will need icebreakers. In addition, the icebreakers may have to be modified for this work. Another example is the upcoming need for support from the fleet for the Department's Oceans Strategy. The program has not yet informed the fleet of the strategy's implications for vessel requirements. Under the existing planning process, programs tell the fleet their exact requirements only after funding for new initiatives is approved. However, this does not always allow the fleet sufficient time to put in place the necessary vessels and crews to support the initiatives.

31.43 Fisheries Management. The enforcement requirements of the Fisheries Management program are communicated to the fleet on an annual basis only. Other departmental programs reduced the fleet services they requested by percentages similar to the funding reductions for the overall program; however, budget cuts in fisheries management were achieved almost entirely by reducing the number of fisheries enforcement vessels operated by the Department. Since 1995, the

Department has removed or is considering removing from service 29 fisheries enforcement vessels, leaving only 11 dedicated fisheries patrol vessels. While fisheries management is not willing to commit funding to the fleet, it expects the support of the fleet when situations arise such as the recent East Coast Aboriginal fishing dispute. Exhibit 31.6 illustrates the uncertainty faced by the fleet in planning for the fisheries enforcement vessel *CCGS Cygnus*.

A long-term perspective is needed for planning and funding.

Long-term perspective needed for planning and funding

31.44 The programs currently fund fleet operations annually. However, the Department is considering moving to a three-year planning period for the fleet. The fleet's vessels have a long life expectancy and are expensive and time-consuming to replace. The single largest operating expense for the fleet is the cost of crewing its vessels. Under existing collective agreements, any reductions in personnel require notification well in advance. Therefore, it is difficult for fleet managers to adjust to sudden shifts in program plans and funding.

31.45 Annual planning and funding process. The process to plan for the next fiscal year begins every fall, when each region's fleet operations group requests each program to indicate the amount and timing of sea-days it needs.

31.46 Based on that information, the regional fleet operations group develops an operating schedule. This preliminary schedule highlights any conflicts or gaps, which are then resolved through negotiations with program managers. The draft schedule is then costed by the fleet's MariTime fleet management system.

31.47 Next, the regional fleet plans are reviewed and amalgamated at national headquarters. The Departmental Management Committee approves the plans. Regional directors general are delegated budgets for marine programs, science, and fisheries management that include a component for funding the fleet. However, the amounts delegated for fleet operations may not reflect the cost projections made in the fleet planning process. For example, in 1999–2000 the funding allocated for fleet operations was $21.4 million less than the estimated cost of implementing the regional plans. This shortfall was made up through "temporary" allocations from the Deputy

Exhibit 31.6

Mid-Life Refit of the *CCGS Cygnus*

The *CCGS Cygnus* is a 62-metre offshore multi-task patrol vessel that operates primarily as a fisheries enforcement vessel. In 1995, the fleet proposed carrying out a mid-life refit of the *CCGS Cygnus* to extend its useful life to approximately 2017. With the Department undergoing funding reductions at the time, the fleet sought to confirm that the *CCGS Cygnus* fit into the long-term plans for fisheries management. Prior to planning the refit, the Maritimes Region confirmed that the *CCGS Cygnus* would be an essential part of the Region's fisheries management strategy. On 24 March 1997, the Deputy Minister approved the project for an amount not to exceed $10 million.

The refit of the *CCGS Cygnus* ultimately cost $11.3 million and was completed by December 1998. However, shortly after the *CCGS Cygnus* came back into service, fisheries management priorities changed from offshore to nearshore fisheries; also, the Region had insufficient budget to operate the *CCGS Cygnus*.

The Base Fleet exercise left the *CCGS Cygnus* without funding. Although the *CCGS Cygnus* was not funded, fisheries management provided temporary funding so that the *CCGS Cygnus* could provide support to fisheries enforcement during the recent disputes over Aboriginal fisheries issues. A final decision about the status of the *CCGS Cygnus* is on hold while this temporary funding is available.

This case is a good example of the impact that uncertainty in program expectations and funding can have on the cost-effectiveness of the fleet.

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Minister's reserve funds and a reallocation from minor capital funding. Further, we found that it was not possible to trace budgetary amounts transferred to regions to ensure that they were, in fact, spent on fleet activities. This was because the regional directors general and Coast Guard regional directors have authority to reallocate funds intended for the fleet to other regional priorities.

31.48 Fisheries management and science managers have been dubious about the process used to fund the fleet for their activities. Indeed, regional managers have withheld funding until they were satisfied with the number of sea-days they would receive. We noted examples, in 1999–2000, where fleet operations had not received regional science budget transfers until August 1999 — five months into the fiscal year. By that time, most of the science fleet activity for the year had already been completed. However, we also noted examples at the regional level where the Coast Guard has absorbed the cost of services provided to fisheries management and science within its own marine programs.

31.49 The Department's processes for funding fleet operations are flawed. Budgets are not known by or allocated to regions until several months into the fiscal year. Annual plans are not achievable with the funds provided. Consequently, fleet managers must operate in an environment of financial uncertainty and must frequently adjust their plans on the basis of perceived risk and availability of cash. The one-year planning and funding horizon does not recognize fleet managers' limited flexibility to adjust costs in the short term.

31.50 Furthermore, the fleet funding process is time-consuming for both fleet and program managers. The process has been divisive, pitting programs against the fleet and region against region. Budget cuts have placed further stress on this unstable environment. The result has been funding decisions that fail to reflect both the expected performance outcomes of the programs and the reliable estimates of the cost of providing services, over either the short or the long term.

Arrangements not documented

31.51 The arrangements between the programs and the fleet are not formally documented in a service accord or contract that would provide for accountability between the user and the provider. Such arrangements are called for under the Department's management model and would help to ensure that service and funding commitments are met.

31.52 As Assistant Deputy Minister, Marine, the Commissioner of the Coast Guard is both the service provider and the client. In 1999–2000, the marine programs represented about 65 percent of the fleet activity nationally. A 1995 consulting study prepared for the Department noted:

> This blurring of roles appears to lead to a less clear definition of the "user needs" and a tendency to deploy assets so they have something to do, rather than deploying vessels in strict accordance with user needs. [Canadian Coast Guard] vessels do not appear to be client driven.

Current method of allocating costs discourages vessel usage

31.53 Vessel operating and crewing costs are allocated to programs based on the programs' proportionate use of each vessel. For example, if a vessel were used 60 percent for tending navigational aids and 40 percent for icebreaking, its total operating and crewing costs would be allocated to the programs based on those percentages. On the surface, this appears to be a reasonable basis for allocating costs.

31.54 According to the Department's management model, assets and resources are first and foremost departmental — to be used in the most cost-effective manner possible to achieve departmental

objectives. To accomplish this objective, the Department has stressed higher use of vessels through multi-tasking. Under this strategy, a vessel can be assigned to complete tasks under any of the Department's programs as long as the vessel is capable of conducting the task. However, because no one vessel may be ideally suited to meet the needs of all of the programs, the current method of allocating costs may result in a program being allocated costs for a capability that it does not need.

The costing methodology does not support the multi-tasking strategy.

31.55 We observed instances where program managers refused to use available vessels, as they did not want to incur the allocated costs of vessels, which they think are too high given the service provided. However, while a program may avoid being charged the cost of a vessel, the Department continues to absorb all of the fixed costs and, in the end, may have an underutilized vessel. Thus, the costing methodology used for the fleet activity does not support the multi-tasking strategy.

31.56 We also observed instances where regional fleet managers agreed to provide services to programs at less than the usual allocated cost. However, the Department's operational and financial systems and costing practices do not currently provide for such arrangements. In the end, the program is charged the usual allocated cost of the vessel despite the agreed-upon arrangement. Such misunderstandings have affected the working relationships between the fleet and its users. Exhibit 31.7 describes a cost-sharing arrangement established by the Newfoundland Region.

31.57 We noted that departmental managers spent significant amounts of time disputing or trying to understand allocations of fleet time and costs. In many instances, they disagreed over relatively small amounts. In our opinion, this wasted effort is at least partly attributable to a costing methodology that does not support departmental objectives or encourage vessel use at the lowest cost to the Department.

Inadequate information to monitor and account for fleet performance

31.58 We expected that the fleet would have the information necessary to monitor and account for its actual performance in terms of service and cost. However, we found that this kind of information is generally not available.

31.59 We identified the following problems:

- Fleet information is maintained in many departmental systems that are not integrated.

Exhibit 31.7

Example of a Cost-Sharing Arrangement in the Newfoundland Region

In the Newfoundland Region, the fleet proposed an arrangement whereby it would provide fisheries enforcement support at the same time that it was conducting offshore search and rescue. The Newfoundland fisheries were concentrated in areas 20 to over 200 miles offshore, yet there was little fisheries enforcement in that area. Since most of the search and rescue risks revolved around the fishery, such an arrangement was a good example of the effectiveness of the Department's multi-tasking strategy.

The fleet proposed to take the remaining fisheries enforcement budget of $250,000 and provide a minimum of 130 fisheries enforcement sea-days. The cost to fisheries enforcement was about $1,900 per day — only 25 percent of the cost of the vessel that was to have provided the largest portion of the service. In the end, the fleet provided about 136 multi-tasked sea-days to fisheries enforcement.

Although the arrangement had called for fisheries enforcement to be charged only $250,000, it was actually charged about $630,000. The Department's cost accounting methodology provides only for the allocation of costs based on the program's proportionate use of the vessel.

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- Most fleet performance information is not available until four to five months after year-end.
- Information systems often provide conflicting results.
- Information is not available that compares budget amounts transferred to the fleet with the actual cost of the service.

31.60 The objective of the government's Financial Information Strategy (FIS) is to provide managers, Parliament and the public with more relevant, reliable and timely financial information for government activities and program performance. It is also intended to integrate operational information with financial information. Our audit raised the types of management issues that FIS is designed to deal with. The Department has informed us that the basic elements of FIS should be implemented by the 1 April 2001 deadline. However, full integration of financial and operational information is still several years away.

Need to improve stewardship reporting

31.61 In its reports to Parliament, the Department identifies fleet management as a separate business line. However, under this business line the Department reports only the costs of the shore-based staff and operations, capital acquisitions, refit and maintenance. The sea-based costs of vessels — including salaries and operating costs — are allocated to the other business lines that the fleet supports. In its 2000-01 Report on Plans and Priorities, the Department clarified for the first time this approach to reporting fleet costs.

31.62 The Department's method of allocating fleet costs to the other business lines is not reliable. We found problems with the processes used to accumulate and allocate the sea-based costs of vessels. This unreliable information is included in the Department's Performance Report. The accountability process set out in the Performance Report is called into question because the explanations for variances between actual and budgeted expenditures are based on unreliable, reported actual expenditures.

31.63 Although the Department knows that the fleet is unable to meet even some of the most basic service expectations, it has not made a consistent attempt to either track or disclose the nature and extent of these gaps in service.

The Department's strategic plan — the roadmap forward?

31.64 The Department's March 2000 Strategic Plan is a forward-looking document that highlights the need for, among other things, mandate renewal and a focus on organizational effectiveness. We believe that our observations about the organizational structure and accountability relationships of the fleet and the supporting management processes are consistent with issues identified in the Strategic Plan.

31.65 Uncertainty, financial restraint and shifting expectations have greatly impacted the Department's programs and, specifically, the fleet activity. The Strategic Plan states:

> In recent years, the pressures of changing program demands, increased public awareness and technological advancement have led to dramatic shifts in [Fisheries and Oceans'] operating environment. Focusing exclusively on cost cutting without understanding the underlying policy implications can lead to ad hoc decision-making and ultimately to organizational ineffectiveness.

31.66 Clearly this section of the Strategic Plan could apply to the Department's fleet activities.

31.67 **Summary.** Key elements necessary to manage the fleet cost-effectively are not in place. These elements are important to the success of the Department's management model and the fleet's role as a service provider.

31.68 In our view, there is a need to focus more clearly on determining expected outcomes of programs. These outcomes must be translated into specific performance measures and goals. With an increased focus on program results, the programs can be more specific in requesting support from the fleet.

Key elements necessary to manage the fleet cost-effectively are not in place.

31.69 The use of short-term funding results in instability and uncertainty for the fleet. Managers of a capital-intensive program with high fixed costs are hard pressed to make good management decisions in the face of such uncertainty. In order for the fleet to provide a cost-effective service, fleet managers must receive assurance of funding and the expected level of service for a longer period than the current one-year planning horizon. While the three-year planning horizon the Department is considering would be an improvement, a five-year horizon would fit more closely with the capital planning process of the fleet.

31.70 Information necessary to monitor and account for the fleet's actual performance, in terms of service and cost, is not available. The current method of allocating costs to the programs discourages their use of vessels.

31.71 In the end, we are left to question how anyone in the Department can be held accountable for the cost-effective delivery of the fleet service. While we believe that fleet managers and program managers understand their respective roles within the management model, both are equally frustrated over their inability to make the arrangement work satisfactorily.

31.72 The Department should review how the fleet fits into its current organizational and accountability structure and take measures to ensure that the fleet can operate in a cost-effective manner.

31.73 The Department should address the weaknesses associated with its key fleet management processes, including:

- **establishing clear, concrete and realistic program performance expectations that include a long-term perspective;**
- **establishing a long-term fleet planning and funding horizon;**
- **developing service accords between the programs and the fleet;**
- **establishing budgetary processes that support accountability;**
- **setting up integrated information systems to enable the Department to monitor and account for the actual performance of the fleet in terms of service and cost; and**
- **implementing costing policies that support the use of the lowest-cost alternative in acquiring service while meeting departmental objectives.**

Vessel Life Cycle Management

Life cycle management — a government requirement since 1995

31.74 In 1995, the government issued its policy on materiel management, requiring departments to manage their materiel resources, including vessels, using a life cycle approach. The policy states that when planning, acquiring, using and disposing of assets, departmental operating requirements should be met and value for money achieved. Essentially, life cycle management is used to manage the total cost of ownership of an asset over its lifetime.

Slow progress in implementing life cycle management

31.75 The fleet's policies and procedures for life cycle management have been under development since 1998. A manual has been produced that suggests best practices for the refit and maintenance of vessels. However, the Department's most optimistic date for complete implementation is 2005. Although there is still no formal life cycle approach in place, we examined how the fleet manages the major stages of the life cycle.

Life cycle management has not been implemented.

Assessing and planning fleet requirements

31.76 **The "Base Fleet."** During 1999–2000, the Department undertook an extensive exercise to determine the number of vessels the fleet needed to meet essential program requirements. The "Base Fleet" exercise resulted in a recommendation that 108 vessels be funded for operations during 2000–01. Thirty-six other vessels would be held in lay-up status for future use or would be decommissioned and sold.

31.77 The "Base Fleet" exercise had a positive impact in that both the programs and the fleet spent considerable time balancing known ongoing requirements with the capabilities of the fleet's existing vessels. The exercise will be important to fleet managers because it will provide the basis for future cost-saving decisions in areas such as crewing and disposal of vessels.

31.78 Because the "Base Fleet" exercise focussed largely on the program requirements of individual regions, the Department did not achieve the potential efficiencies it might have gained through a better matching of national requirements to available vessels. By subdividing the fleet into five distinct regional units, each with its own operating processes, procedures and support, the Department has missed opportunities for greater sharing of resources and for better productivity in providing the service. For example, due to lack of funding, in 1999–2000 the Maritimes Region did not operate the 14-year-old *CCGS Edward Cornwallis*, an icebreaking navigational aids tender. At the same time, the Newfoundland Region was operating two icebreaking navigational aids tenders far older at 41 and 33 years.

Opportunities exist for better sharing of resources among regions.

31.79 Several of the regions stated that the final approved "Base Fleet" plan does not meet their regional operating requirements. These regions have continued to lobby internally for either more funding or the reallocation of vessels to their region. The final "Base Fleet" plan still forecasts a current-year shortfall in program funding of $14.3 million and gaps in the fleet's capability to meet ongoing program requirements.

31.80 **Long-term capital planning.** In June 2000, the Treasury Board approved the Department's Long-Term Capital Plan. We reviewed the fleet component of the new plan and the processes supporting its development. According to the Department, there has not been a fleet capital plan since 1987 for the former fisheries and science fleets or for the Coast Guard fleet.

31.81 From the fleet's perspective, the Department's Long-Term Capital Plan does not represent a realistic or true picture of the fleet's long-term capital needs. We base this conclusion on the following observations:

- The long-term program requirements have not been clearly established. Changes in technology or approach (for example, modernization of aids to navigation) can alter the need for vessels. Without establishing these requirements, the long-term need to replace a vessel — or even which type of new vessel to acquire — cannot be determined with certainty.
- The projects identified in the Plan represent a "wish list" of maintenance and replacement projects prepared by the regions and accumulated by headquarters. The list was not screened to determine whether all the projects were appropriate or required. For example, if all of the projects were approved and funded, most of the Department's large vessels would

be out of service for refit during some period of the Plan's five-year time frame. It is not realistic to believe that the Department could deliver its program objectives with so many vessels being taken out of service.

31.82 Prior to the current Long-Term Capital Plan, availability of funding drove the fleet capital planning process. The fleet has not put together a persuasive and realistic analysis to support its capital requests. Projects were funded on a case-by-case basis, depending on the funds available. The capital planning process causes numerous management difficulties. A recent fleet assessment completed as part of the Coast Guard's headquarters renewal stated:

> The problems with the current situation are that it induces a high degree of uncertainty for approvals and long delays are incurred. As a consequence of the capital funding shortfall, it becomes more important that available funds be utilized in the optimal manner. A net result of the delays and uncertainties is higher maintenance costs and repercussions on operational and [human resources] plans such as deployment, training and recruitment. Approvals and delegations typically come very late in the fiscal year, when it is too late for procurement action in the same year, resulting in lapsed funds and a further deteriorating asset base.

31.83 In a recent Treasury Board submission, the Department alerted the Board that it was going to undertake a study "for a potential Major Crown submission aimed at revitalizing the larger cornerstone elements of the [Fisheries and Oceans] fleet." Funding for such an initiative was estimated at between $300 million and $400 million. Before proposing major reinvestments in the fleet, the Department needs to consider the changing nature of program requirements, the impact of technological change, and whether the service could be acquired by alternative means.

31.84 **Acquiring vessels.** During the course of the audit, the fleet was considering the acquisition of several vessels, including the replacement of the 1000-class, ice-strengthened, medium navigational aids tenders. This proposal was in the early pre-approval stages and therefore we did not include the acquisition process within the scope of this audit. We did note that while funding remains uncertain for a number of these "planned" acquisitions, fleet personnel have been developing acquisition plans for the 1000-class vessels since at least 1996.

Accountability for cost-effective fleet operations

31.85 **Operational planning and scheduling.** The five regional operations centres (ROCs) are responsible for the operational planning for the fleet and the scheduling of individual vessels. Each Centre reports through the regional Coast Guard director. While the ROCs play an important role in determining the cost effectiveness of the fleet, we found that there is no means available to hold them accountable for their role in operational planning and scheduling.

31.86 No national system is in place to regularly monitor or analyze the efficiency and economy of the fleet use or to determine the results achieved. Nor are there fleet performance standards or expectations that can be used to plan for the fleet. However, in the Newfoundland Region we observed that the ROC reports monthly to the program managers on the planned vessel activity compared with actual activity. In this instance, the program managers and fleet managers meet to discuss operational issues, including any variance from the monthly vessel schedule.

31.87 We noted variations in scheduling practices from region to region. For example, in certain regions vessels tasked to primary offshore search and rescue are not simultaneously tasked to tend navigational aids. In the Pacific Region, however, one of the three vessels tasked to primary offshore search and rescue can at any time also be tasked to tend navigational aids. Such regional interpretations of operational policy and procedures can limit the potential for improving efficiency.

31.88 There are opportunities to improve the co-ordination between regional fleet operations and the programs they serve. For example, in certain regions navigational aids are transported, where appropriate, by truck to convenient, cost-effective locations for later pick-up by a vessel. In other cases, however, we noted that vessels made regular long-distance transits back to the base of operations to pick up or drop off navigational aids.

31.89 **Fleet safety standards.** The fleet is voluntarily implementing the International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM Code). This important international code requires that roles, responsibilities, policies and procedures be established for the safe operation of vessels and the prevention of pollution by vessels. Fleet headquarters establishes the practices that regional operations must implement in order to meet the ISM Code and is monitoring regional implementation and compliance. The introduction of the ISM Code is an important step toward standardized fleet practices.

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Operating without timely, reliable and integrated information

31.90 In the private sector, fleet managers get the information they need to manage their vessels through integrated ships' information systems. Information is available on financial results, costing, maintenance and repair, purchasing, crewing and payroll management, ISM Code compliance, and training management.

31.91 By contrast, we found that Fisheries and Oceans fleet managers do not have similar information readily available. Moreover, the information that they do have is not integrated with other financial and operational information to make it useful to managers, is not available on a timely basis, and is not reliable for decision-making purposes.

31.92 The problems associated with the information systems can be illustrated in the area of human resource management. The fleet uses three main information systems to manage human resources. These systems are not well integrated. For example, information on new employees must be entered separately into each system. This creates the opportunity for errors and conflicting data and is inherently inefficient. Timing differences in these systems mean that they can produce different information. While these systems can produce considerable data, regions maintain their own manual and computer-based systems to help them manage the fleet's human resources.

31.93 During our audit, we continually had difficulty obtaining routine information about the fleet and its management. For example, information on the costs allocated to individual vessels for the year ended 31 March 2000 was not available until three months later. Managers cannot obtain the same information throughout the year because of limitations in the systems.

31.94 The Deputy Minister has issued instructions that managers should stop using so-called "black book" systems — that is, informal, non-sanctioned means of recording information. However, we found that many managers continue to keep such records. That they do so despite the Deputy Minister's instructions to stop is a good indication of the problems associated with the Department's formal information systems.

Maintenance — the need for a national, fact-based approach

31.95 In various submissions to the Treasury Board and its officials, the Department has provided information on the implications of long-term underfunding of capital and maintenance budgets for the fleet. The Department's position is that its vessels are aging and that operating and maintenance costs for the vessels and the risks to their safe operation are therefore rising. While this hypothesis seems reasonable, we could find no analysis to support the Department's position.

31.96 In recent years, the fleet has carried out only the maintenance necessary to ensure that vessels receive certification by Transport Canada's Ship Safety Branch to operate and to safely meet operational requirements. Traditionally, the fleet was maintained in a manner that would allow vessels to operate well beyond their 30-year average expected useful life. The decision to change maintenance practices was based on funding constraints.

31.97 We expected that fleet managers would regularly review the operating status of vessels, using information on each vessel's ability to perform its tasks and to operate safely and cost-effectively. However, fleet managers currently make replacement and maintenance decisions based on their best estimate of the condition and operating cost of each vessel, with little analysis supported by facts.

31.98 The Department is currently implementing the Materiel Information Management System (MIMS), which will be used to track the costs of repairs and maintenance of fleet assets. While MIMS should go a long way in providing management information in the future, the fleet does not have the complete historical information to input into MIMS so that it can operate effectively for the existing vessels.

31.99 Each vessel operates a ship-based system called the Predictive Upkeep and Maintenance Program (PUMP). PUMP provides information for the vessel's chief engineer on routine maintenance and inspections that are required or have been completed. This system is important for ensuring that required maintenance work is identified and completed, especially given the increasing frequency of rotation of the chief engineers.

Costliness of vessels in lay-up status

31.100 The "Base Fleet" exercise calls for 36 vessels to be held in lay-up status for future use or to be decommissioned and sold. The fleet does not separately identify the cost of vessels in lay-up. We found that lay-up can be expensive.

31.101 For example, the *CCGS Edward Cornwallis* was in lay-up status for over a year due to lack of funding. During that time, the fleet was awaiting a decision on whether the *CCGS Edward Cornwallis* would be used as a science platform. The vessel was non-operational in 1999–2000, except for about two weeks, yet it incurred $1.2 million in salaries and operating costs. The *CCGS Edward Cornwallis* has subsequently gone back into service, not as a science vessel — but largely to provide an offshore search and rescue capability.

31.102 Another example is the *CCGS Sir John Franklin*, an icebreaker in the Newfoundland Region, which was declared surplus in 1996. It was subsequently placed into service in both the Laurentian and Newfoundland Regions as a replacement vessel, and was placed into lay-up effective March 1999. During 1999–2000, it cost $440,000 to maintain this vessel in lay-up status. Subsequently, when it was not included as one of the vessels funded through the "Base Fleet" exercise, the Department decided to dispose of the *CCGS Sir John Franklin.*

31.103 There is no national guidance on the most cost-effective means of maintaining vessels in lay-up status. We note that in this respect, as in many others, practices vary among regions. In the Central and Arctic Region, which operates seasonally, vessels in long-term lay-up status are monitored through remote sensors and thus require no crew to be aboard. In contrast, the Maritimes Region maintained the *CCGS Edward Cornwallis* with a reduced crew of five to six people during most of the period it was in lay-up status.

31.104 Once the Department has identified vessels that are surplus to its needs, they become the responsibility of Public Works and Government Services Canada, which handles the remainder of the disposal process. This aspect of the disposal process was outside the scope of this audit.

31.105 **Summary.** The fleet currently does not operate its vessels using the life cycle approach. This approach has been under development for a number of years but is still not nearing implementation. By using inconsistent practices in managing the fleet, the Department is missing opportunities to achieve greater efficiencies and to share good practices.

31.106 The Department should consider a longer-term strategy to renew its aging fleet. Such a strategy should take into consideration the changing nature of program requirements, the impact of technological change and the potential for alternative means of acquiring the service needed.

31.107 The Department should complete the development and implementation of life cycle management policies and procedures for its fleet.

31.108 The Department should ensure that the fleet activity is supported by information systems that produce integrated, timely, reliable and relevant information.

Managing the Fleet's Human Resources

The fleet's single largest operating expense

31.109 In 1999–2000, salaries and related expenses represented about 79 percent of the vessel operating costs allocated to the programs. At 1 April 2000, 756 officers and 1,308 crew were assigned to vessels, although the number of people varies during the year depending on seasonal requirements.

31.110 Because the fleet is not a separate organizational unit, it is difficult to determine which shore-based human resources are directly involved in supporting it. Based on information obtained from each region, interviews with managers, and a review of organization charts, we conservatively estimate that there are about 447 full-time-equivalent shore-based positions that provide direct support to the fleet (see Exhibit 31.8). Also, approximately 55 positions associated with the Canadian

Exhibit 31.8

Shore-Based Positions that Directly Support the Fleet

July 2000

	Headquarters	Regions	Total
Operations	52	153	205
Technical Support	16	171	187
Other Administrative Support	0	55	55
Direct Shore-Based Support	**68**	**379**	**447**
Coast Guard College			55
Total Shore-Based Support			**502**

Source: Fisheries and Oceans

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Coast Guard College provide training support directly to the fleet. Still other positions, in areas such as finance and information technology, provide indirect support to the fleet; however, it was not possible to estimate their number.

Need for a human resource plan

The fleet does not have a human resource plan.

31.111 The fleet has faced considerable funding reductions since 1995. However, it has not prepared a human resource plan that establishes the basis for determining the number and types of personnel required to operate and support the reduced number of vessels in the fleet.

31.112 In 1995, the Coast Guard fleet completed a comprehensive review of vessel crewing practices and procedures. The review recognized the need for a policy framework for vessel crewing. Also needed were guidelines to ensure a consistent approach from region to region, improved training, better scheduling practices for leave and training, rotation of ships' officers, pooling for ships' crews, and improved management of overtime costs. Although there has been some progress on the issues that focussed on cost reduction, the fleet did not establish a plan to implement the review's recommendations. In fact, we found that many of these concerns still exist within the fleet.

The impact of human resource issues on operations

31.113 National guidance on human resource matters is inadequate. Like many other areas in the fleet, there is inadequate national guidance for human resource matters. Consequently, there are variations in human resource practices among the regions, and regional interpretations of collective agreements with employees.

31.114 Managing collective agreements. The fleet operates under two main collective agreements with its seagoing personnel — one for officers and one for crews. However, these collective agreements generally reflect the operating conditions of the federal public service as a whole except for the lay-day provisions. The fleet lay-day system predominantly uses a work period of 28 continuous days followed by a leave period of 28 days (it can be any period up to 45 days). During the 28-day work period, each crew member works 12 hours a day, seven days a week.

31.115 Use of provisions associated with more regularly scheduled public service positions in a lay-day system has proven to be particularly problematic. For example, a recent dispute over annual leave entitlements resulted in a 51-page adjudicator's decision and in most ships' officers having their annual leave entitlement doubled. It also resulted in an inequitable situation with most officers now receiving double the leave of the few officers who are not covered by the decision. We are concerned that the existing collective agreements are complex and difficult to administer.

31.116 The collective agreements include a premium paid when more than 45 lay-days have been accumulated. However, icebreaker crews are deployed in the Arctic for periods of up to 42 days. Crew members having more than three accumulated lay-days at the beginning of an Arctic deployment could be eligible to receive the premium, thus increasing costs.

31.117 Collective agreements and fleet funding formula constrain the flexibility of vessel scheduling. We reviewed the fleet's method of justifying the funding required for salaries, training and other personnel costs. The funding process, called the 10–2–1 formula, is based on the annual operation of vessels using thirteen 28-day cycles. Ten cycles are funded for operations, two for lay-up and one for an annual refit.

31.118 The fleet attempts to operate its vessels on a 10–2–1 schedule because of the existing collective agreements and funding limitations. However, this schedule can be problematic from an operational perspective. For example, while some vessels actually operate for 10 cycles per year, most operate for more or fewer than 10 cycles.

31.119 In reality, management has decided to operate the vessels in a way that allows officers and crew to use up the significant leave entitlements (annual, lay-day and overtime) accumulated under normal operations according to their existing collective agreements. If management were to do otherwise, the cost of operating the vessels would be prohibitive. Prior to 1995, the fleet had sufficient flexibility to manage the accumulation of leave by using officer and crew relief pools. Later, as part of cost reduction initiatives, the Department eliminated relief pools. This has constrained management's flexibility to schedule ships' personnel and to provide service to the programs.

31.120 Managing sick leave and work-related injuries. According to the Department's MariTime fleet management system, sick leave used in 1999–2000 totalled 68,410 hours for ships' officers and 120,419 hours for ships' crews, with 95 percent of the sick leave used by personnel in indeterminate positions. The MariTime fleet management system reports that the average sick leave used by ship-based indeterminate personnel was 115 hours per year, or roughly the full amount of sick leave allotted each person each year. However, the reported use of sick leave by indeterminate seagoing personnel in the Maritimes Region averaged about 160 hours each. In contrast, sick leave in the public service is 67 hours a year. We were also informed by managers that there is a seasonal pattern to sick leave usage. Seagoing personnel who report in sick must be replaced in order that the vessels can sail. Replacements are often paid overtime, which adds to the cost of operations. We found no evidence that managers have attempted to understand or reduce the use of sick leave.

31.121 We also noted that the fleet incurs a high proportion of the Department's disabling injuries. In 1999, the fleet accounted for 71 of 88 such injuries (in 1998, it was 65 of 75). On 1 April 2000, there were 71 fleet employees on long-term disability. There are safety committees on each ship and throughout the fleet. However, statistics on sick leave and injuries suggest that management needs to focus more on these issues.

31.122 Managing overtime costs. At 1 April 2000, the Coast Guard had about 3,676 full-time-equivalent positions. This represents about 43 percent of the Department's staff. In June 1999, the Department's Corporate Services, Human Resources Directorate issued a report on overtime management. The report noted that the Coast Guard had incurred 70 percent of the Department's $33 million expenditure on overtime in 1998–99, the largest portion of which was incurred by fleet personnel. The report authors could find no evidence that managers were trying to reduce overtime costs.

31.123 Managing the leave liability. Officers and crew are entitled to annual leave and to leave as a result of overtime and other lay-day provisions of the collective agreements. As described earlier, the 10–2–1 system is designed to permit the use of this leave during the two lay-up cycles and, to a lesser extent, the refit cycle. In order to meet program requirements, regions often operate the vessels for additional cycles. This reduces the opportunity for seagoing personnel to use their leave. The situation is having two negative consequences for the fleet:

- When officers and crew take leave entitlements rather than being paid out, it may be during operating cycles. These personnel must be replaced, often by employees who receive overtime. This adds to the cost of operations and, potentially, further increases the Department's leave liability.

- The fleet estimates that the total leave liability at 31 March 2000 was $23.8 million ($17 million in 1999), with the Maritimes Region accounting for about $7.6 million of this ($5.1 million in 1999). Not all of these amounts have been entered into the Department's formal accounting records. In not recording the liability when it was incurred, the fleet has consistently understated its operating costs. When the Financial Information Strategy comes into effect on 1 April 2001, the full unrecorded leave liability will have to be entered into the Department's accounting records.

The leave liability is increasing.

31.124 Vessel crewing requirements. Since our audit of the fleet in 1989, the total number of seagoing personnel and the sizes of crews on each vessel have been reduced. However, we have noted differences in the crewing levels of similar vessels operated in different regions. For example, an 1100-class navigational aids tender engaged in work on navigational aids in the Newfoundland Region has a crew of 24, while the same vessel in the Pacific or the Central and Arctic Region has a crew of 26. Newfoundland Region vessels do not carry a logistics officer and have one fewer steward than the other regions. Competency profiles, required under the ISM Code, are being developed regionally and will establish the number of positions by vessel. However, as with many of the issues we have identified, we could find no national analysis to explain the differences in crew sizes or to share best practices that could allow for a common approach.

Ensuring that properly skilled personnel are available

31.125 During our interviews with the Department's internal users of fleet services, we were invariably informed that the quality of the fleet personnel was high. We reviewed a number of factors to determine whether fleet personnel had appropriate knowledge, skills and competencies.

31.126 The fleet is in the process of developing for each position on each vessel a competency profile that will meet the requirements of the ISM Code. It is also developing a profile of the various program tasks that each vessel performs. Those profiles are complete or there are work plans in place to develop them.

31.127 The fleet has a system to track hazardous occurrences. Between April 1999 and February 2000, 68 hazardous occurrences were reported. Two of them were potentially serious — one was a near collision and the other was the partial flooding of an engine room. Both incidents were attributed to the inexperience of the crew. In the first instance, the captain was not familiar with the nature of the operations; in the second, the engine room staff were not familiar with the vessel.

31.128 The officers and crew of the fleet are required to develop and maintain a wide range of skills and knowledge. The fleet has identified a shortfall of $1.55 million in the 2000–01 training budget to meet basic technical training requirements. Some of these training requirements were identified as part of the ISM Code implementation.

31.129 We also noted that a number of ship-based personnel are given shore-based assignments, often because of personal preference. Such assignments can be useful from an organizational and personal development perspective. However, the fleet has not identified all of these rotational positions, established criteria for staffing them or ensured that assignments come to a definite end. Because these personnel are "assigned" to vessels, this practice also increases the reported operating costs of individual ships.

31.130 We also reviewed the attrition rate among officers. According to the fleet, regions lost the following proportions of their officers over the last two years:

Central and Arctic	13 percent
Pacific	11 percent
Laurentian	10 percent
Newfoundland	6 percent
Maritimes	4 percent

31.131 While these numbers are not alarming, they are a concern because the losses are occurring primarily among junior officers who represent the future officer core. The turnover is also a concern because it takes six to eight years to recruit, educate and train officers, and the demand is growing in the marine industry for qualified officers. The average age of an officer is 44.

31.132 We found that officers and crew in the current complement are highly skilled. However, there is no plan for ensuring that the fleet will continue to recruit, retain and train sufficient personnel into the future. All of these factors combined suggest that the fleet needs to prepare a long-range strategy for replenishing its officers and crew and continuing to develop and maintain their skills and knowledge.

Shore-based support is too large.

Shore-based support is too large given the current size of the fleet

31.133 We reviewed the number of shore-based staff who directly support the fleet. Exhibit 31.8 shows the distribution of the shore-based staff. The fleet has a ratio of about one shore-based position directly involved in supporting operations for every four seagoing staff members.

31.134 In trying to determine the reasons for this ratio of shore personnel to seagoing personnel, we observed the following:

- The fleet makes extensive use of term, seasonal, casual and temporary employees to staff what are often, in substance, indeterminate positions (see Exhibit 31.9). The requirement to continually staff these positions creates an administrative burden. For example, the Maritimes Region has 108 positions classified as seasonal or term. These are often, in reality, full-time indeterminate positions because of the limited extent to which the work in that region is seasonal. It can take several months to establish an eligible list for term positions. We noted instances where regions had to make casual appointments because of the length of time it took to staff term positions. This interim measure resulted in two staffing actions to fill one position. Not only do these "revolving door" situations create an administrative burden, but employees are also suffering stress and low morale due to long-term uncertainty about their status. We noted that some term positions have been converted to indeterminate because employees have had five years of uninterrupted service.
- Scheduling of crews is difficult and time-consuming. Under the ISM Code, the ship is not supposed to leave port unless

Exhibit 31.9

Ships' Personnel by Employment Status

January 2000

	Number	Percentage
Crew		
Indeterminate	896	61
Seasonal, Casual, Terms and other	563	39
	1,459	
Officers		
Indeterminate	646	83
Seasonal, Casual, Terms and other	131	17
	777	

Source: Fisheries and Oceans

all essential positions are filled. Therefore, when a crew member scheduled for work is sick or requests annual leave, shore-based scheduling staff must quickly find a replacement if the vessel is to leave as scheduled. This requires extensive adjustments to work schedules and last-minute redeployment of people. Systems to manage the work schedules of employees are complex, requiring substantial support to enter, analyze and correct data.

31.135 We also noted that operating five separate regionally based fleets contributes to the number of shore-based personnel. On the Atlantic coast, there are three separate regional organizations to support a planned total of 26 large vessels. Each region maintains a separate operations centre and separate engineering, technical support and administrative arrangements. These multiple structures may no longer be appropriate given the reduced size of the fleet.

The fleet has not focussed on managing its human resources.

31.136 Summary. We are concerned that the fleet has not focussed attention on managing its human resources, despite the fact that they represent about 79 percent of the vessel operating costs allocated to the programs. Difficulties associated with planning for the fleet have resulted in a situation where there is inappropriate use of seasonal jobs, inordinately high use of term employees, inadequate training to meet operational requirements, and collective agreements that effectively limit vessel use and complicate crewing. In addition, shore-based support is excessive given the reduced current size of the fleet. We are concerned that the Coast Guard knew as early as 1995, prior to the merger, about many of the issues that we have reported, yet management has taken little action.

31.137 The Department should develop a human resource strategy for the fleet to address the need to maintain the skills and knowledge of ship-based personnel and to ensure that a sufficient number of qualified officers and crew are available in the future. The strategy should consider a long-term approach to the collective agreements with ships' personnel so that they can be administered in an efficient and economical manner and can support the fleet's operational requirements.

31.138 The Department should regularly analyze payroll costs related to the fleet and take action to control such costs, where necessary.

Conclusion

31.139 As noted in the chapter we found weaknesses in key management practices in each of the areas we audited — levels of service and accountability, life cycle management and human resource management. To ensure that the fleet service is provided in a cost-effective manner, we believe that the resolution of these weaknesses requires management's prompt action.

Fisheries and Oceans' overall response: *Fisheries and Oceans accepts the Auditor General's findings, and is committed to finding solutions to the shortcomings. To this end, a study is already under way that will derive a series of strategic options for fleet management. Following the completion of this study, its recommendations will be reviewed and an Action Plan with concrete timelines and accountabilities will be developed to address each of the following issues:*

1) fleet operational requirements and planning;

2) fleet resource allocation and reallocation;

3) resource utilization and redeployment mechanisms;

4) fleet management support;

5) vessel crewing;

6) fleet performance management and costing systems; and

7) relevant management roles, relationships and interfaces.

About the Audit

Objectives

The objective of this audit was to assess the extent to which Fisheries and Oceans manages the fleet to meet the current and long-term needs of users in a cost-effective manner.

Scope

We examined three key aspects of the Department's management of the fleet:

Mandate, mission and levels of service. We reviewed the extent to which the Department had clearly established the mandate and mission of the fleet, and whether expectations on levels of service were defined and met. We also examined accountability arrangements between the fleet and users and the long-term funding arrangements for the fleet.

Life cycle management. We reviewed the way the Department assesses the requirements for vessels, manages the use and maintenance of vessels and administers disposals.

Human resource management. We examined the way the fleet ensures that it has the appropriate number and types of human resources to provide fleet services in a cost-effective manner.

Criteria

We expected that:

- the Department's management of the fleet would be based on a clearly established mandate and mission;
- accountability relationships for achieving the cost-effective delivery of the fleet services would be clearly articulated and monitored;
- the fleet would require the Department's programs and/or other government departments, where appropriate, to specify in quantifiable terms the short- and long-term need for services;
- the fleet would obtain the funding necessary to carry out the level of service requested by the Department's programs;
- the Department would employ the appropriate management systems and practices, including life-cycle management processes, required to provide the requested fleet services in a cost-effective manner; and
- the Department would use the appropriate number and type of human resources required to provide fleet services in a cost-effective manner.

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Report of the
Auditor General of Canada to the House of Commons – 2000
Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6

5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry

6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter

15 Health Canada – First Nations Health: Follow-up

Other Observations
16 Follow-up of Recommendations in Previous Reports
17 Other Audit Observations

Volume 3 – December 2000

Chapter

Matters of Special Importance – 2000
Foreword and Main Points

18 Governance of Crown Corporations

19 Reporting Performance to Parliament: Progress Too Slow

20 Managing Departments for Results and Managing Horizontal Issues for Results

21 Post-Secondary Recruitment Program of the Federal Public Service

22 Development of the Universal Classification Standard: A Follow-up

23 Information Technology: Acquisition of Goods and Services

Protecting Health and Safety
24 Federal Health and Safety Regulatory Programs
25 Canadian Food Inspection Agency – Food Inspection Programs
26 Health Canada – Regulatory Regime of Biologics
27 Canadian Nuclear Safety Commission – Power Reactor Regulation
28 Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

29 Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

30 Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

31 Fisheries and Oceans – Fleet Management

32 National Defence – Defence Support Productivity: A Progress Report

Other Observations and Appendices
33 Follow-up of Recommendations in Previous Reports
34 Other Audit Observations

35 Sustainable Development Strategy for the Office of the Auditor General

Report of the
Auditor General of Canada
to the House of Commons

Chapter 32
National Defence – Defence Support Productivity: A Progress Report

December 2000

L5

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

© Minister of Public Works and Government Services Canada 2000
Cat. No. FA1-2000/3-32E
ISBN 0-662-29591-9
Copies françaises aussi disponibles

Chapter 32

National Defence

Defence Support Productivity: A Progress Report

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

Table of Contents

Page

Main Points 32-5

Introduction 32-7

Findings of the 1996 Defence support productivity audit 32-7
Focus of the audit 32-7

Observations and Recommendations 32-9

Business Planning 32-9
Cost information is still lacking 32-9
Efforts to develop an activity-based costing capability have been delayed 32-10
Base/wing level staff are frustrated with the business planning process 32-11
Status of performance measurement 32-12

Operating Budgets 32-12
What is an operating budget? 32-12
Impact of the devolution of operating budgets 32-12
Efforts to address problems associated with devolution of operating budgets 32-13

Culture Change 32-13
Efforts to reform culture lack a blueprint for change 32-13

Co-ordination of Change 32-14

Alternative Service Delivery 32-16
Two major alternative service delivery projects are expected to deliver savings beginning in 2004 32-16

Corporate Productivity — Individual Training 32-17
National Defence has a large training system 32-17
Performance measures have not been implemented 32-18
Labour productivity in schools appears to have decreased 32-18
Forecasting production requirements has presented a challenge 32-19
Strategic guidance to training staff has been weak 32-20
The goal for validation of individual training has yet to be met 32-20
Problems with the training management system exist 32-20
Costing of individual training is inconsistent 32-21

Corporate Productivity — Aircraft Maintenance 32-21
Devolution of budgetary control has been a mixed success 32-22
Determining cost savings remains a problem 32-22
Implementation of maintenance quality system was delayed 32-22
Efforts to train aircraft maintenance technicians for multiple skills failed 32-22

Base/Wing Supply 32-23
Performance information remains limited 32-23
Massive organizational, operational and process changes have occurred 32-24

Base/Wing Commercial Vehicle Maintenance 32-24
Information on productivity and warranty use is unknown 32-25
Progress has been made in the vehicle disposal process 32-25

Page

Base/Wing Transportation 32-26
Availability of performance information has improved significantly 32-26
Gaining full benefit from the new system will require further effort 32-27
The change in productivity of base/wing transportation operations is unknown 32-27

Information to Parliament 32-28
There are two main reports to Parliament 32-28
There is still no performance measurement system in place 32-28

Limited Progress in Renewal Efforts 32-28

Conclusion 32-32

About the Audit 32-33

Exhibits

32.1 Canadian Forces Bases and Wings 32-8
32.2 A Chronology of the Evolution of Activity-Based Costing Initiatives 32-11
32.3 Training Days Delivered Per School Employee 32-19
32.4 Operational and Process Changes in Base/Wing Supply Organizations 32-25
32.5 Institutional Reform Model 32-29
32.6 Analysis of Lack of Progress in Implementing 1996 Recommendations 32-30

Appendix

Departmental Progress Made Against 1996 Recommendations of the Auditor General 32-35

National Defence

Defence Support Productivity: A Progress Report

Main Points

32.1 National Defence's efforts since 1994 to transform itself to a more entrepreneurial organization and to maintain military capabilities in the face of declining financial and human resources have yet to be completed. Efforts to reform the services we examined in 1996 that provide support to the ships, land force brigades and air squadrons of the Canadian Forces remain a work-in-progress.

32.2 In 1996 we reported that the productivity of the base/wing support functions of vehicle maintenance, supply and transportation had either fallen or was less than that of similar service providers. This year we found that, because of massive organizational and process changes, we could no longer measure productivity; nor could the base/wing managers tell us if they were more or less productive than they were in 1996.

32.3 Although the number of training days delivered per Canadian Forces school employee has declined since 1996, 14 schools may be unable to deliver the quantity of individual training required in the future.

32.4 National Defence's efforts to improve aircraft maintenance productivity have been relatively successful, although the introduction of AF 9000 Plus, a quality management system, has stalled.

32.5 The Department has achieved limited success in its efforts to shift to a more businesslike environment in those renewal efforts we examined.

- Business plans, although helpful in rationing declining resources, still lack performance measures. Managers continue to express concerns about the adequacy of cost information. As a result, it is difficult for managers to determine whether productivity is improving or declining.
- The devolution of operating budgets to the lowest level of the organization has led to confusion over roles and responsibilities. Managers do not have the knowledge and experience to carry out their new responsibilities. The Department has not provided adequate training on new information systems, and the complexity of the systems has complicated rather than simplified re-engineering and devolution initiatives. The Department has undertaken a number of initiatives to address these issues.
- The Department's efforts to transform its organizational culture continue; however, culture change priorities have yet to be identified.
- As might be expected, the two major alternative service delivery programs most closely associated with defence support productivity are meeting strong internal resistance from potentially affected employees. The Department expects to realize savings beginning in 2004.

32.6 We found that the lack of measurable progress in improving support productivity can be attributed to a number of factors, including:

- the relatively low priority of improving defence support productivity among the Department's competing programs;
- the need to cope with continuing personnel and budget reductions throughout the renewal period; and
- the lack of a strategic plan to guide the Department's reform efforts through its five-year renewal period (1994–1999).

Background and other observations

32.7 The operational ships, land force brigades and air squadrons are sustained by a support system that provides such things as personnel administration, food, fuel, equipment, maintenance and training. In a force of about 60,000, approximately 36,000 are dedicated to operations and training at any given time, with the remainder focussed mainly on continuing support. In dollar terms, support services consume approximately 45 percent of the $11 billion budget of National Defence. In this audit, we reviewed the progress made by the Department in improving productivity in support functions that we audited in 1996. These functions represent only part of the resources consumed by support services. Measuring and improving defence support productivity is important to ensure that only minimal resources are consumed by support functions so that maximum resources can be dedicated to operations.

32.8 In 1994, in response to the government's 1994 Defence White Paper, National Defence embarked on a five-year renewal program to devote maximum resources to the Canadian Force's combat capability by decreasing the cost of support activities. Between 1994 and 1999, the Canadian Forces were reduced from 76,000 to about 60,000 members. The civilian work force was reduced from 32,000 to about 20,000 employees. During this period of rapid personnel reductions, National Defence completed a number of significant overseas and domestic deployments.

The National Defence response is included in this chapter (paragraph 32.126). The Department stresses that it has faced many challenges and competing priorities that have reduced its ability to improve support productivity. Officials told us that business planning has resulted in greater awareness of the need for efficiency and that their Strategy for 2020 document will provide an overall framework for change.

National Defence acknowledges that the development of activity-based costing information has been slow, but says that its decision-making process has not suffered. The Department is still working on a performance measurement framework.

Introduction

Findings of the 1996 Defence support productivity audit

32.9 The operational ships, land force brigades and air squadrons of the Canadian Forces are sustained by a national support system that provides personnel support, equipment, food, fuel, maintenance and training. The overall support system consists of a number of systems and processes such as procurement, supply, maintenance, finance and transportation. These support services are delivered in part through the 23 Canadian Forces bases and wings where operational units are stationed, and through national and formation headquarters that provide general management of the individual support functions (see Exhibit 32.1).

32.10 In November 1996, we reported on the general state of the productivity of Defence support. We defined productivity as the rate at which resources are used to produce or deliver a given quantity and quality of products. The more productive a support operation is, the fewer the resources it will consume to provide the same quantity of output; and hence, the more resources can be devoted to combat and combat service support units. We concluded:

- National Defence had begun its management renewal process but had by necessity been forced to concentrate its efforts on implementing personnel and budget cuts mandated in the 1995 and 1996 federal budgets.
- Major re-engineering initiatives appeared to be on track, but were only then entering the implementation stage and were therefore difficult to assess.
- Business planning and operating budgets were only slowly coming into effect and would likely take additional time to affect management behaviour.
- Senior management had identified the need to change values and beliefs from a focus on following bureaucratic rules to one of independent initiative and cost consciousness.
- Employee surveys done by the Department had indicated that a great gap existed between the current culture and the one required if the Department was to benefit from business planning and the use of operating budgets.
- The Department's productivity, where it could be compared with outside providers, was lower because budget cuts and downsizing had reduced the need for support services faster than the Department had reduced the number of staff providing these services.
- Management lacked the information to detect decreases in productivity and was often constrained in its ability to act; it lacked incentives and had been preoccupied with implementing budget reductions.
- The Department had built its renewal strategy around freeing up middle management and encouraging initiatives that would improve productivity; chief among these were the introduction of business planning and operating budgets.
- At the time of our 1996 audit, which was after the introduction of business planning and operating budgets, it was evident that managers still lacked cost and performance data to make business cases for change.

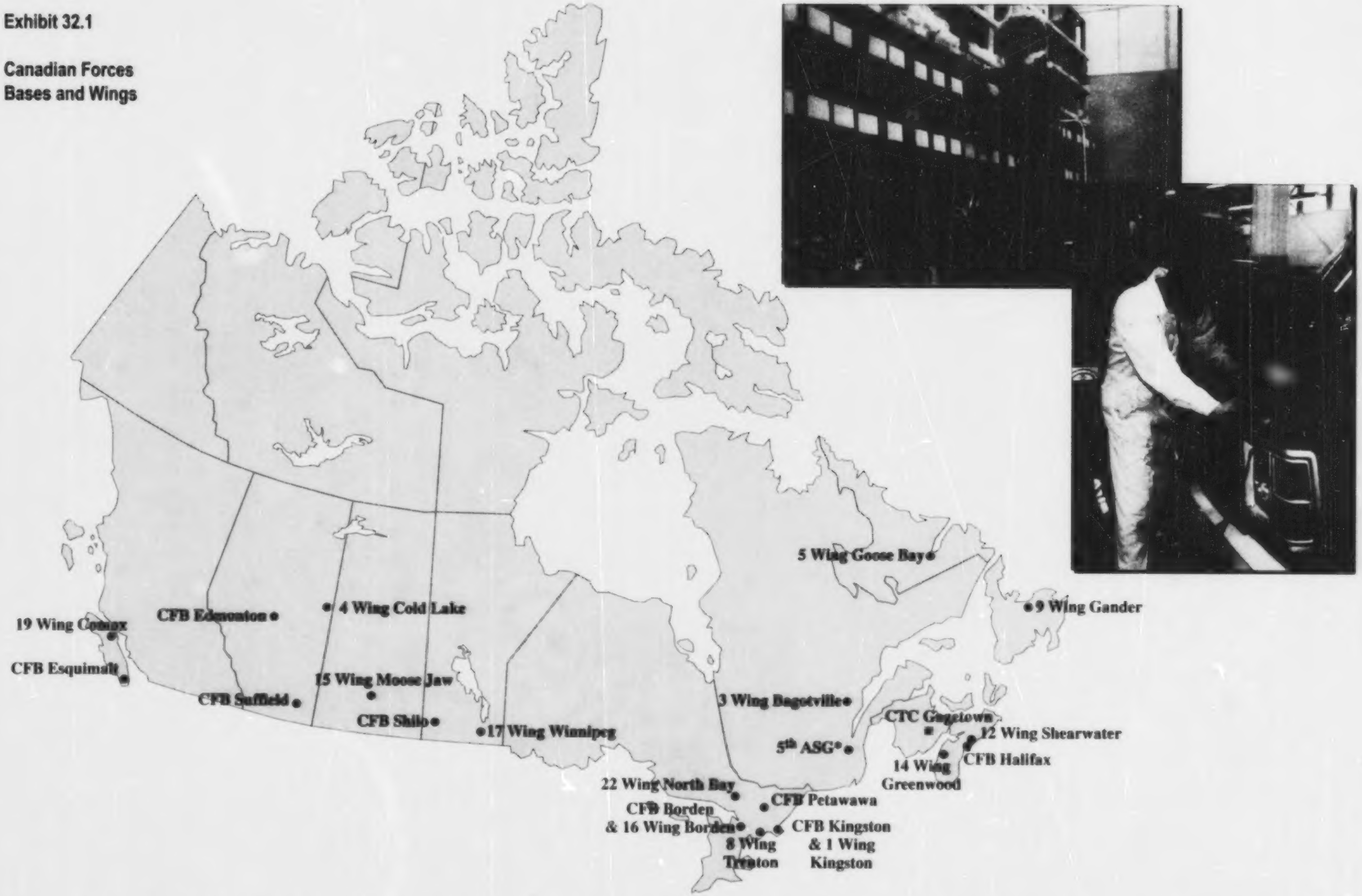
In 1996 we reported that Defence support productivity was falling in those areas we examined, despite departmental initiatives.

Focus of the audit

32.11 The objectives of this audit were to report to Parliament on whether recommendations and observations raised in the 1996 Report had been addressed by National Defence; to determine whether management action taken would likely correct the deficiencies; to re-audit support productivity in the areas of individual training, base commercial vehicle maintenance and base

Exhibit 32.1

Canadian Forces Bases and Wings


19 Wing Comox
CFB Esquimalt
CFB Edmonton
4 Wing Cold Lake
CFB Suffield
15 Wing Moose Jaw
CFB Shilo
17 Wing Winnipeg
22 Wing North Bay
CFB Borden
& 16 Wing Borden
8 Wing
Trenton
CFB Petawawa
CFB Kingston
& 1 Wing
Kingston
3 Wing Bagotville
5th ASG*
5 Wing Goose Bay
9 Wing Gander
CTC Gagetown
12 Wing Shearwater
CFB Halifax
14 Wing
Greenwood

The operational units of the Canadian Forces, including the personnel, ships, army equipment and aircraft fleets, are located across the country. The personnel on the bases and wings provide support services to the operational units. Such support services include the maintenance of equipment, the provision of supplies, transportation of personnel and cargo and numerous other services to ensure that operational units are prepared for duty. We audited the 23 bases and wings identified in the exhibit.

* 5th Area Support Group includes Canadian Forces Base/Area Support Unit (ASU) Valcartier, ASU St-Jean, ASU Montreal.

transportation and report to Parliament on the changes; and to determine the reasons for delays in implementing the 1996 recommendations to improve defence support productivity. The Appendix provides an overview of the progress made with respect to each recommendation.

32.12 At the strategic level, we reviewed business plans, operating budgets, culture, and the change co-ordination function. Each of these areas had been selected for audit in 1996 because of their significance to the Department's five-year renewal program. For this audit, we added two projects from the Department's alternative service delivery program that had just begun at the time of completing our 1996 audit. At the corporate level, as in 1996, we looked at individual training and aircraft maintenance, each of which had been chosen because of their high cost. Finally, we reviewed the same support services delivered at bases and wings, namely the base maintenance, supply and transportation functions. As in 1996, these services were chosen because of their importance and the significant number of support personnel involved in their delivery. Further details on the audit are in **About the Audit** at the end of the chapter.

Observations and Recommendations

Business Planning

32.13 A key part of the Department's reform strategy was to delegate objectives and resources to each level of management and charge local managers with improving efficiency in their individual areas of responsibility. Business planning has been the key tool to accomplish goal setting and delegation.

32.14 National Defence defines business planning as an accountability-based process that links the Department's program sub-activities to performance through the establishment of a contract between superior and subordinate commands. The contract identifies the tasks or functions to be performed, the resources assigned and the expected results.

32.15 In 1996, the business planning process, for the most part, extended only to the top level of the Department — the Navy, Army, Air Force and Headquarters groups. Since that time, the Department has extended the process to subordinate commands and bases/wings. In 1996 we observed that although activities and objectives had been defined, the top-level plans did not include cost and performance data, thereby limiting the usefulness of the plans as tools to improve productivity. During the current audit, we still found that business plans at the base and wing levels lacked the cost and performance data necessary to serve as tools to improve productivity.

Resource reductions have focussed business planning more on rationalization of activities than on improvement of productivity.

32.16 The Department has continued to face budget reductions throughout the period 1996 to 1999. Because of this, business planning has become more a process through which all levels of the Department decide what activities can't be carried out to support operational capabilities from the resources allocated. In general, the business planning process rationalizes the elimination or reduction of activities that have the least impact on the delivery of those capabilities called for in the 1994 Defence White Paper.

Cost information is still lacking

32.17 To maximize productivity, resource managers at the base and wing level need sufficient detailed cost information. This enables them to make businesslike decisions to ensure that resources are used in the most cost-effective manner. We noted several concerns with the tools and training in this area.

32.18 We surveyed all 23 commanders of bases and wings. Of the 21 who responded to our business planning information request, 16 believed they could project impacts on resources and deliverables in a timely manner using the tools they had available. Nevertheless, most expressed concerns about either a lack of appropriate costing tools or a lack of training on costing tools, or both. Specifically, base and wing commanders expressed concerns about such tools as activity-based costing (ABC), the Air Force's Cost Centre Management (CCM) tool, and the current limitations of the Department's principal financial accounting system, the Financial and Managerial Accounting System (FMAS). Four of the base/wing commanders identified problems with manpower shortages, two identified problems with staff turnover, and three were concerned about the reduction in rank of those personnel occupying supervisory positions in the resource management function.

32.19 The majority of base and wing commanders responded positively when asked if linkages were sufficient through current costing capabilities to project impacts on resources and deliverables. Thus, we believe that National Defence has established an adequate foundation for the costing function. However, based on the concerns expressed by these same base and wing commanders, more remains to be done.

32.20 Base and wing organizations providing support services such as supply, transportation and commercial vehicle maintenance voiced similar concerns. Slightly more than half of the support service managers believed that they had the necessary cost information to ensure that the resources allocated to them were sufficient to fund the deliverables specified in their business plans. However, about 40 percent responded that their current costing capabilities were insufficient to project the impact on deliverables of reductions in resources or increases in activity rates. Similar concerns were expressed by the 31 Air Force squadrons who responded to our information request. Senior departmental officials maintain that the tools to support an adequate costing capability are available to base, wing and squadron level personnel but that not all managers are aware of this. They told us they expect their comptrollership initiative to increase managers' knowledge.

32.21 A significant number of base level officials thought better training was needed on the Department's Financial and Managerial Accounting System, the Air Force's Cost Centre Management tool and the many variants of activity-based costing used throughout the bases and wings.

32.22 We found that 22 of the 33 Air Force squadrons contacted had not fully implemented the Cost Centre Management model as a tool to support costing activities and related decision making. Air Force officials have explained that they are implementing a plan to revitalize the model.

Efforts to develop an activity-based costing capability have been delayed

32.23 The chronology of the evolution of activity-based costing, the Cost Centre Management model and the Department's Financial and Managerial Accounting System is summarized in Exhibit 32.2. The exhibit depicts the series of initiatives aimed at improving the costing capabilities of resource managers throughout the Department. Internal audit conservatively estimated that the cost of these efforts was about $11 million by the end of 1997.

32.24 Internal audit identified as a significant issue the lack of an overarching framework to guide the development of the Department's activity-based costing capability. Many organizations have invested considerable resources in developing costing tools; however, with few exceptions, progress toward providing better cost information through the introduction of activity-based costing below the top level of management has been delayed.

32.25 The way ahead for the development and use of these tools is currently unclear. As well, many officials expressed concerns that they have neither the manpower nor the resources to keep any of these costing models up-to-date and usable.

Base/wing level staff are frustrated with the business planning process

32.26 We found that base and wing commanders and their immediate subordinates (those directly responsible for delivering such support services as supply, transportation and commercial vehicle maintenance) are frustrated with the business planning process and resulting plans.

32.27 Six of the 21 base and wing commanders we contacted expressed frustration with the lack of funding accompanying the devolution of activities within the Department. The Air Force headquarters responsible for reviewing all wing level business plans states that the plans are replete with examples of activities being "dumped and/or devolved." This appears to have happened with limited stakeholder participation and little or no transfer of associated funds. As a result, business planners must fund these activities from their original resource

Exhibit 32.2

A Chronology of the Evolution of Activity-Based Costing Initiatives

Costing Initiative	1992	1996	1998	2000
The Air Force launches its Cost Centre Management (CCM) tool to improve costing capability.	√			
The Navy, Army and Assistant Deputy Minister (Human Resources - Military) contribute funding to CCM development (1994-1996).		√		
The Department informs the Auditor General that activity-based costing (ABC) may be implemented Department-wide by June 1998 as a component of the Financial and Management Accounting System (FMAS).		√		
The Army, faced with looming critical cash shortfall, chooses a process-oriented approach and invests in a network version of ABC.		√		
Environments and Groups concurrently develop ABC models (1996-1998) while attempting to minimize the risk of proceeding in a direction not aligned with the Department-wide FMAS solution.			√	
The FMAS is implemented Department-wide without ABC.			√	
Environments and Groups continue to develop ABC models but find new data sources such as FMAS and PeopleSoft have yet to be stabilized.			√	√
The Department informs the Auditor General that ABC at the national level will not be implemented prior to the successful implementation of accrual accounting.				√
The Air Force informs the Auditor General that it anticipates completing the implementation of CCM at the operational and strategic levels over the next two years.				√
The Department informs the Auditor General that clearer direction on the national level ABC initiative will be given about mid-July 2000.				√

allocations, which have been significantly reduced over the last few years. A level of frustration is not surprising given that devolution was taking place simultaneously with budget reductions.

32.28 Aside from the frustration with the lack of training and tools, the responses we received from the base and wing level indicate that the business planning process is seen as a paper exercise and not as a usable management tool. However, participants do see the process as useful in allowing them to play a role in the allocation of resources. Most said that wide participation increases the visibility of resources and activities at all levels within the base and wing organizations and allows them to set priorities.

Few supply, transportation and maintenance support organizations at the base and wing level have developed performance measures in the last four years.

Status of performance measurement

32.29 The Navy, Army, Air Force, Assistant Deputy Minister (Human Resources – Military) and the Assistant Deputy Minister (Materiel) cumulatively spend approximately 75 percent of the funding allocated to National Defence. These organizations differ in their mandate, organizational structure, operations and support services provided to operations.

32.30 In 1996 we examined three common support services delivered by support sections at the base and wing level to the Navy, Army and Air Force — namely, supply, transportation and commercial vehicle maintenance services. This year we found that the organizations delivering these services have undergone significant change. Although they are working on performance measurement systems, very few are actually using performance information as part of a performance management system to improve support productivity.

32.31 What is clear is that business plans at the base and wing level do not integrate performance information from prior years to identify targets for improvements to the productivity of support operations.

Operating Budgets

What is an operating budget?

32.32 National Defence defines operating budgets as those dollars devolved directly to the Environmental Chiefs of Staff and other level one managers within the Department. Operating budgets primarily consist of funding for operations and maintenance, civilian salaries, and minor capital items. They are devolved to each level of the organization from Headquarters down to the base/wing and unit/squadron levels. The intent behind operating budgets is to allow local managers, particularly at the base/wing and unit/squadron levels, to make their operations more efficient by making their own spending choices among minor capital items, personnel and operational activity while delivering on the commitments in their business plans.

32.33 In our 1996 audit, we concluded that operating budgets were indeed a useful tool but that their full utility had not yet been realized at the local level. Furthermore, managers should know how to use them and should be provided with the incentive to do so.

Impact of the devolution of operating budgets

32.34 The devolution of operating budgets to the lowest levels of the organization has resulted in a significant number of problems. While departmental officials informed us that they were aware of some of these consequences earlier, an internal audit published in September 1999 highlighted four critical problem areas: roles and responsibilities, training, communication and complexity of the new information systems.

32.35 The audit indicated that the devolution of operating budgets, many aspects of procurement, human resource management and other functions had led to considerable confusion about the roles and responsibilities of local resource managers. Many resource and business managers did not have the knowledge and experience they needed to do their work; and without a co-ordinated training strategy, the benefits from business planning may not be realized. Because re-engineering, devolution and downsizing had fundamentally changed relationships, roles and responsibilities, central functional staff could not effectively communicate policy and procedures to resource managers in a timely way. In addition, the complexity of the new information systems had complicated, rather than simplified, their work. To address these issues, the Department has developed and issued new financial direction and policy, financial and materiel management guides for resource managers, and specialized training courses, all of which identify roles and responsibilities for both resource and financial managers.

32.36 Our audit work confirmed the internal findings. Of the 22 base and wing commanders who responded to our information request on operating budgets, 12 said that the training their staff received on operating budgets was inadequate, and 14 expressed concerns about operating budgets and information systems. Nine commanders felt there were problems with roles and responsibilities, including not having enough staff, and seven described lack of skills as a problem.

Efforts to address problems associated with devolution of operating budgets

32.37 As one of the pilot departments for Treasury Board's Modernization of Comptrollership initiative, National Defence conducted a Capacity Check in the fall of 1999. The Capacity Check consisted of a departmental self-assessment that identified 13 areas of opportunity for improvement. As part of its action plan to advance modern management, the Department has identified three primary thrusts that will address the 13 areas; these are the Integrated Defence Management Framework, the Integrated Information Environment and the Department's Financial Information Strategy (FIS).

32.38 Departmental officials explained that this action plan, Toward a Modern Management Agenda, will address a range of problems associated with the devolution of operating budgets. These include breakdowns in internal control processes, basic departmental practices and the functional support chains.

32.39 According to officials, the action plan will be published later this year and is scheduled to be implemented over the five-year period 2000-2005. Given the size and complexity of National Defence and the Canadian Forces, the level of effort required to fully implement this action plan will be enormous.

Culture Change

Efforts to reform culture lack a blueprint for change

32.40 In 1996 we reported that the change in values and beliefs held by departmental staff had just begun and that changing culture would likely be a long and difficult process. Departmental officials believed that a change in culture would be required to move from a centralized, hierarchical and risk-adverse environment to one that would be decentralized, and where resource custodians would become resource managers.

32.41 Efforts to bring about this culture change have fallen short. The Department has published Strategy 2020, which articulates both long-term objectives and short-term targets that should facilitate the identification of culture change priorities. However, the Department has not yet established a clear blueprint to move the organization's culture in the desired direction. Instead, it has chosen an indirect approach, relying on the introduction of new management systems such as business planning to bring about the desired change. Further, we noted that the Defence Management Committee has given the Environmental Chiefs of Staff and Group Principals the responsibility of leading the culture change without first establishing clear priorities. We do not believe that the Department's approach will be sufficient to bring about the desired culture change.

32.42 In 1996 we recommended that National Defence continue to monitor the employee beliefs and values on which its new management system would depend. In response, the Department conducted a cultural survey in 1999, the results of which were compared with two similar surveys done in the mid-nineties. We assessed the reasonableness of the survey methodology but did not audit the reliability and validity of the survey results.

The Department said that a change in culture was the key to improving productivity but did not develop an overall plan.

32.43 The respondents to the 1999 survey expressed significantly more positive views on new practices, openness to workplace innovation, optimum contribution of personnel, wise use of resources, teamwork and integration, general management climate, and renewal and change. In contrast, respondents expressed significantly more negative views on planning procedures, media reports, personal and public perceptions, stress, organizational support and downsizing.

32.44 National Defence employees also participated in the Public Service Employee Survey that the Treasury Board conducted in 1999. The survey results indicated few differences between National Defence employees and the rest of the federal public service. However, on the positive side, National Defence employees rated themselves higher in their likelihood to take initiative in the workplace. On the negative side, more Defence employees than public service employees believed that organizational instability caused the quality of their work to suffer.

32.45 The 1999 internal survey suggests some positive change in the workplace culture; however, with a lack of priorities, it is difficult to assess if these changes were the most critical. Officials in the newly created Directorate of Strategic Change, whose mandate we explain in paragraph 32.50, have an action plan to improve the workplace culture. Some elements of the action plan involve defining culture change priorities, identifying the gap between the current and desired culture, and implementing initiatives to address this gap. An implementation schedule for the action plan was not available.

Co-ordination of Change

32.46 In 1996, National Defence was entering the second year of its five-year renewal program. It was still in the relatively early stages of major change, which was intended to take place during the period 1994 to 1999. The Department claimed that positive results from the monumental re-engineering and restructuring were only beginning to be realized. By January 1995, the Department had decided to adopt a single co-ordinator for the massive re-engineering efforts under way — the Management Command and Control Re-engineering Team (MCCRT). This team consisted of 110 employees devoted to re-engineering activities in all major sectors of the Department. The team ceased its 30-month effort in June 1997.

32.47 In our 1996 audit, we recommended that National Defence ensure that it maintain a centre for the co-ordination of change, to track the activities of major initiatives, address common problem areas and report to senior management. The Department accepted our recommendation but replied that it did not intend to create or promote centralized control of change initiatives. It believed that this work was the responsibility of those in the chain of command. The Department rejected central co-ordination of renewal programs, and it did not follow up on individual efforts for several years.

32.48 We found that the mandate to co-ordinate, track and report to senior management on the major change initiatives under way at that time was never fulfilled. Although the Defence Management Committee gave the Chief of Management Renewal Services the mandate to co-ordinate change initiatives that crossed organizational boundaries, this organization was itself reorganized. In addition, the Director General of Management Renewal Services quickly became fully occupied with the Alternative Service Delivery program and did not co-ordinate the major renewal initiatives. Departmental officials informed us that in March 1999 the Directorate of Strategic Change was created as the centre for co-ordinating change within the Department. They claim that the Directorate is taking a decentralized approach to co-ordination where the chain of command and the operators are key to the success of implementing the change initiatives. In addition, the Directorate will assist the chain of command in implementing the initiatives by playing the role of catalyst, change integrator and change co-ordinator among the various organizations.

32.49 Defence officials further informed us that some time prior to the formation of the Directorate of Strategic Change, the Department had turned to business plans as a means of tracking and monitoring significant issues. In 1998, internal audit reviewed all business plans to determine how well they were addressing change. The review found that business planning had not matured enough to capture all cross-functional issues and that it was not successful in tracking change initiatives.

32.50 In its role as co-ordinator of change initiatives within the Department, the Directorate of Strategic Change is to:

- develop the strategy and lead the implementation of major departmental change initiatives;
- develop a continuous improvement plan for National Defence;
- co-ordinate the implementation of the Integrated Defence Management System initiative;
- promote the integration of the modern management agenda, including modern comptrollership concepts, into National Defence by establishing a centre of excellence for change to help the Department adopt more progressive management practices; and
- promote alternative service delivery to provide more cost-effective delivery of non-core activities and provide associated policies, procedures and support.

32.51 We also reviewed an internal audit report published by the Department in May 1999 entitled NDHQ 99: Review of Restructuring and Re-engineering. This review evolved from concerns that change efforts in National Defence Headquarters would lose momentum unless some form of measurement was put in place, especially after the MCCRT was discontinued. The report concludes, "re-engineering has taken place, to varying degrees, within virtually all NDHQ processes, although many of those interviewed believe that more needs to be done in the personnel and materiel fields. There is a also a general belief that re-engineering that crosses organizational boundaries has been limited…and that the centre does not have a corporate view of the extent and progress of re-engineering and its impact on outputs and people."

32.52 Departmental officials told us that it is now too late to monitor MCCRT initiatives in a useful manner. However, they intend to track future significant change initiatives through business planning, performance measurement mechanisms and the new Directorate of Strategic Change. They further state that several MCCRT initiatives were monitored, particularly Headquarters personnel reductions and the initiative to rationalize Headquarters accommodations.

32.53 We remain concerned about the management of change within National Defence for several reasons. First, we noted that the Department lacked an overall change management strategy from the time of our last audit in 1996 until 1999. For much of this period, there was no staff centre responsible for overall co-ordination of change management. However, beginning in 1999, senior departmental planning guidance has identified a number of change objectives that, taken together, appear to address the management of change through the business planning process.

32.54 Second, we noted a deep sense of frustration and what might be termed "change fatigue" on behalf of many of the military and civilian staff we interviewed. Although many said that fewer renewal projects were under way than in recent years, they expressed the concern that they no longer had the time or staff to deal with managerial issues such as increasing support productivity. The institutional change model described later in this chapter suggests that confusion, fatigue and counter-productivity are normal during a period of monumental change. Accordingly, the concerns about staffing shortages expressed are understandable, given that the Department reduced Headquarters personnel by over one third.

Alternative Service Delivery

Two major alternative service delivery projects are expected to deliver savings beginning in 2004

32.55 We reported on the Alternative Service Delivery (ASD) program at National Defence in November 1999. At that time, we concluded that the program had resulted in some limited success, although we were unable to verify the savings claimed by the Department. Of the Department's 16 currently active ASD projects, 2 have large potential savings and are closely connected to the delivery of defence support services.

32.56 The first, the Supply Chain Project, originated in late 1997. The mandate of this project is to review all supply and distribution functions in National Defence, end to end, from suppliers in industry to the soldiers in the field. According to the June 1999 business case analysis, which we did not audit, the annual forecast cost of that portion of the supply chain targeted for contracting out is $366 million. The Department is currently selecting a contractor. Once the selection is made, National Defence plans to work collaboratively with the contractor to jointly define the contract requirements. Collaborative work may take up to one year, whereupon the final value proposition, including estimates of final savings, will be tabled for the government's consideration.

32.57 A May 2000 internal briefing to departmental senior management by the Supply Chain Project staff identifies cumulative savings of $569 million over a 10-year period. The costing model indicates transition costs of $70 million over the first three years, with actual savings forecast to begin in the fourth year. The tentative schedule for implementation, when the selected contractor assumes the role of contracted service provider, is some time in 2001.

32.58 During our audit, we noted strong internal resistance to the Supply Chain Project. As might be expected, both military and civilian staff are concerned that despite all the effort made to improve base/wing supply productivity, their jobs may be lost or the nature of their work may significantly change.

32.59 The second major alternative service delivery project with large potential savings is the Site Support Services Project, which also had its origin in 1997. This project has expanded from its six original Army sites to at least 19 locations. Site services include such functions as realty management, technical services, support to operations, administration, finance and comptrollership. The departmental management framework for conducting site reviews of these services was issued in June 2000. The Environmental Chiefs of Staff and Group Principals will be responsible for performing the individual site reviews, including the development of business case analyses and the conduct of competition with private sector bidders, if that option is chosen. The Department has directed that all site support service reviews be completed by 31 March 2004.

32.60 Both of these projects were initially to have been completed by the end of 1999. Officials explained that in the case of the Supply Chain Project, the original milestones were only a rough estimate that has since been revised. In the case of the Site Support Services Project, delays have been encountered for a number of reasons. Foremost has been the necessity to revise the competitive tendering process to account for the decision to allow in-house organizations the following opportunities: first, to meet alternative service delivery review objectives, and second, to develop a set of Canadian Forces common service standards to ensure national consistency in the level of support services under review. The Environmental Chiefs of Staff and Group Principals are scheduled to provide the Vice Chief of the Defence Staff with their plans for conducting the site service reviews in the fall of 2000.

32.61 In 1996 we examined support functions that bases and wings provided and also two large corporately driven support functions — individual training and aircraft maintenance. We chose these functions in 1996 because of the significant resources devoted to each; this is still the case, and we discuss our review of each function here.

Corporate Productivity — Individual Training

National Defence has a large training system

32.62 Individual training is provided by the Canadian Forces to ensure that its personnel acquire necessary military and technical knowledge and skills. A 1998 review conducted for the Department estimated that individual training and education cost about $2 billion a year. This estimate included costs for personnel, students, operations and maintenance, capital and support. Personnel accounted for 24 percent ($479.7 million) of the estimate. We therefore consider that the productivity measure we established in 1996, training days per school employee, is both relevant and significant in terms of cost. It is not, however, a complete or comprehensive measure since personnel costs are only a portion of training resource inputs.

32.63 At the time of this audit, the Department had 51 schools that provided individual training. During the 1996 audit, we examined 47 schools to determine how productivity had changed since 1990-91. To continue the trend analysis, our current audit reports on 37 schools; due to amalgamations and divisions of schools, these represent 43 of the 47 schools examined in 1996.

32.64 The schools we audited currently employ more than 4,800 people and produce about 1,000,000 training days annually. These schools vary greatly in physical size and each employs anywhere from about 10 to 300 employees. Responsibility for individual training has been devolved from a central staff unit to four managing authorities: one for each of the environments — Land, Sea and Air,

Two major alternative service delivery projects related to support productivity are expected to deliver savings beginning in 2004.

and a departmental authority who is also the managing authority for any training that spans two or more environments.

Performance measures have not been implemented

Labour productivity in the Canadian Forces schools has decreased a further seven percent since our 1996 audit.

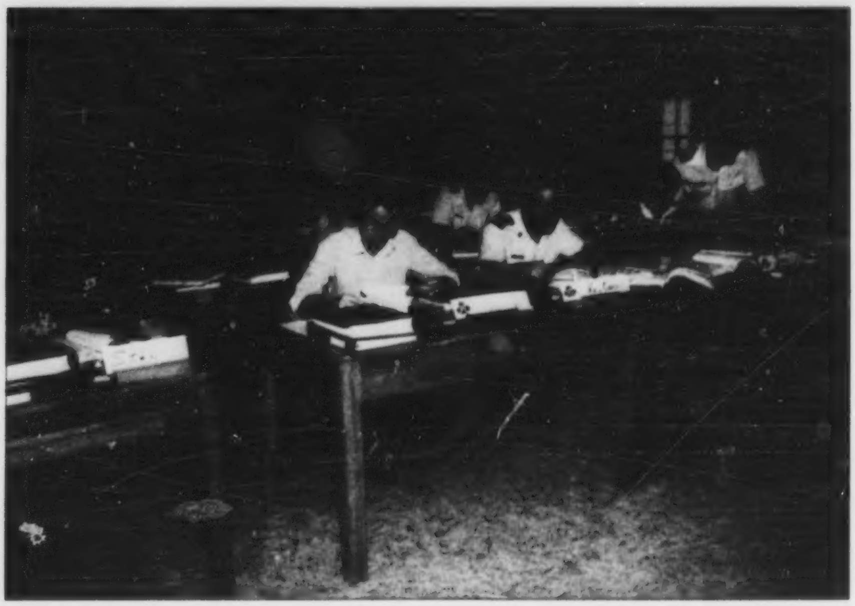
32.65 No one performance measurement system is being used consistently across Forces schools to measure productivity in individual training. The Department has suggested comparing Canadian military schools with those of other countries; however, it does not currently do this and therefore no data were available. Although individual managing authorities have identified various performance measures, half of the schools we audited responded that they do not measure productivity; the remaining schools use various measures that cannot be summed up to obtain a system view. The departmental authority for individual training, in conjunction with the managing authorities, has developed a national verification system that provides performance measures and indicators; however, it is still in its early stages of implementation. The measure we have therefore used to assess productivity, although not comprehensive, is the only one for which data were available and also covers a material aspect of individual training.

Labour productivity in schools appears to have decreased

32.66 In our 1996 audit, we compared the number of staff with the number of training days delivered by the Canadian Forces and National Defence schools. We reported that labour productivity in the schools had decreased by 40 percent since 1990-91. This appeared to have occurred because the Canadian Forces had been downsized, but the schools had not reduced their staff proportionately. In our 2000 audit, we found that labour productivity had decreased a further seven percent since our 1996 audit, when compared with the 1990-91 baseline. Since 1994-95, a decrease in labour productivity has occurred in 21 of the 37 schools and across all four managing authorities.

32.67 Exhibit 32.3 illustrates the total reduction in labour productivity that has occurred in the 37 schools. The 1990-91

Labour productivity in Canadian Forces schools continues to decline (see paragraph 32.66).



and 1994-95 fiscal years are used as baselines, as these are the first and last years used in the analysis for the 1996 audit.

32.68 In 14 of the 37 schools, there has been a steady decline in labour productivity since 1990-91. Only two schools have steadily increased labour productivity. An additional 14 schools show a decline in productivity between 1990-91 and 1994-95, but have since increased their labour productivity levels — four of these to above their respective 1990-91 levels. The remaining seven schools increased productivity between 1990-91 and 1994-95, but have since dropped below their 1990-91 levels. According to departmental officials, our analysis suggests that the effects of downsizing, and in particular the Force Reduction Program, continue to affect school labour productivity. Our analysis also indicates that there have been difficulties in forecasting changes to staffing requirements.

Forecasting production requirements has presented a challenge

32.69 Departmental officials told us that the size of the Canadian Forces training establishments is based on the Canadian Forces production requirements. An individual training production requirement is the number of graduates required to address an operational or departmental need. The Canadian Forces have had significant difficulties in establishing production requirements; however, departmental officials believe that modelling and review procedures recently put in place should enhance forecasting of production requirements in the future.

32.70 Although the number of training days delivered per Canadian Forces school employee has declined since 1996, 14 schools may be unable to deliver the quantity of individual training required in the future. The main reason identified for these difficulties is lack of staff, particularly qualified instructors. It is clear that personnel reductions have seldom been made in the appropriate places and not many staff levels have been adjusted to meet actual needs. Some schools are now already overburdened and unable to meet requirements, while others anticipate problems meeting expected increases in requirements. This is especially a problem in basic training. It appears that staff reductions were made based on the requirements at the time of the downsizing, when there was little training taking place. Now that training requirements are increasing for many of the schools, the Department needs to review staffing levels at all schools and adjust them to meet these new needs.

32.71 When it was implemented, the business planning process required training establishments to forecast their budgetary requirements prior to the training demand being established. As a

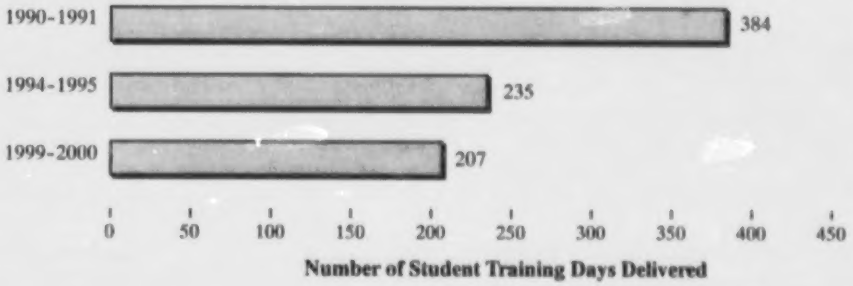


Exhibit 32.3

Training Days Delivered Per School Employee

Source: Office of the Auditor General survey data result, individual training was scheduled and conducted to meet as much of the demand as possible within the allocated budget that was established in the prior year. In recent years, the result has been an unforecasted demand much greater than the allocated budget. It is therefore difficult to ensure that the appropriate level of resources, including staff, is in place to deliver the required quantity of training. The Department has developed a draft business process model to address this problem, but has yet to implement it due to a lack of both information technology support and stakeholder input.

Strategic guidance to training staff has been weak

32.72 The first edition of the Strategic Human Resource Planning Guidance (SHRPG) was distributed in the fall of 1997 to supplement the departmental senior strategic guidance for 1998. It stated that specific human resource guidance is essential to fully develop the human resource portion of the business plan. Despite this statement, the SHRPG for 1999 was released only in draft form and the 2000 version was not distributed until January 2000, which is after business plans were to have been submitted. The 2001 document was released in June 2000, despite the statement in the 2001 departmental senior strategic guidance that the SHRPG would be published in April each year. These delays mean that business planners do not have timely access to training priorities and change restrictions, which the human resource guidance is intended to provide.

32.73 New Defence Administrative Orders and Directives were to be released in the summer of 2000 to replace the 1994 Instruction on Individual Training and Professional Development (IT/PD) Management Framework, which is the current directive for individual training. However, there are now delays due to changes in the military staff members responsible for this policy. The Department hired a contractor for nine months beginning in June 2000 to set up a co-ordination cell responsible for facilitating future production of the Defence Administrative Orders and Directives.

32.74 Continuity in leadership, especially in the position of the departmental authority, has been a problem. There have been four incumbents in this position since 1996. Continuity in strategic leadership is essential during times of change.

The goal for validation of individual training has yet to be met

32.75 Validation is the process of confirming that the appropriate training is being delivered. It prevents over or undertraining by surveying graduates of the various courses and their supervisors to determine whether the training was required and is being used. The national verification system and the Strategic Human Resource Planning Guidance identify a goal of validating approximately 20 percent of active courses per year, resulting in all courses being evaluated over a five-year period. To date, this goal has not been met.

Problems with the training management system exist

32.76 The Individual Training Management Information System (ITMIS) was designed to be a demand-driven system. In theory, courses should not be scheduled until a training requirement and student availability have been established. Yet most of the Canadian Forces schools we surveyed have cancelled scheduled courses due to a shortage of either students or staff.

32.77 The in-service Defence Human Resources Management System (HRMS), based on a PeopleSoft product, is scheduled to replace ITMIS in 2002. A gap analysis between the requirements of the Canadian Forces Individual Training and Education System (CFITES) and what HRMS could provide was completed in February 2000. The report concluded that given the size of the gap and the number of important unresolved issues, successful implementation of HRMS support for individual training and education could present significant challenges, including meeting the project schedule and cost and dealing with product constraints. Managing authorities are concerned that, without significant further development, the proposed system will not be able to provide as much management support as the ITMIS currently does.

32.78 The original lack of acceptance of ITMIS, the considerable costs of its implementation, and the inability to use some of the planned features have created problems. Unless the concerns of managing authorities are addressed, similar problems appear likely with the transition to the HRMS. As well, funding for improvements and training on the ITMIS have been reduced due to the upcoming change of systems, even though this change is not scheduled to take place for another two years.

Costing of individual training is inconsistent

32.79 Although the Individual Training Management Information System was designed with a limited costing feature, it is not being used. Schools use different models, which include military staff, infrastructure and base support costs to varying degrees. This leads to difficulties in establishing the exact cost of individual training in the Canadian Forces. Although a new position has recently been created to review the costing of individual training, it is impossible at this time to determine on a system-wide basis whether this training is being conducted in a cost-efficient manner.

Corporate Productivity — Aircraft Maintenance

32.80 During 1999-2000, National Defence spent about $428 million on maintaining its fleets of aircraft. Aircraft maintenance is conducted in part by industry and in part by the some 4,700 National Defence employees who work in this area. Our audit addressed the maintenance services provided directly by National Defence employees in the aircraft maintenance units located on the wings.

32.81 In 1996 we audited aircraft maintenance and found that productivity was improving. Specifically, we found that the Air Maintenance Squadron at Cold Lake, Alberta, which services CF-18 Fighter aircraft, had carried out a number of initiatives that had improved productivity. However, we also found that costing data to manage the maintenance support functions were not sufficient to aid responsibility centre managers in making well-informed cost/benefit judgments.

32.82 During our most recent audit, we wanted to determine the extent to which the lessons learned at Cold Lake had been disseminated across the Air Force. We wanted to re-evaluate the success of some of the improvements identified in our 1996 chapter and to determine whether the availability of adequate cost information had improved.

32.83 The lessons learned from Cold Lake that we followed up in this audit related to the reduction of the number of approvals in the maintenance processes, the devolution of budget control to responsibility centre managers and the introduction of AF 9000 Plus, a quality management system initiative.

32.84 We found that all 33 squadrons had received guidance from their headquarters to reduce the number of approvals required in the maintenance processes and all but three had complied.

A key initiative to train maintenance staff in multiple skills needs to be amended.

Devolution of budgetary control has been a mixed success

32.85 The principle behind devolving budgetary control was to give managers more resource flexibility to meet their priorities and objectives. In 1996, we reported that this process provided the incentive to responsibility centre managers to spend less, thereby allowing the proceeds from underutilized budgets to be spent on buying small pieces of equipment to improve the work. In this audit, we found that 28 of 33 squadrons had received devolved budgetary control. However, 10 of the 28 felt they had not benefited by having control over their budget; 7 of 10 stated that they were not able to use the money they had saved.

Determining cost savings remains a problem

32.86 When asked about specific cost savings initiatives, 24 of 33 squadrons indicated that they had been encouraged to adopt such initiatives. However, of this number, only five squadrons were able to provide estimates of cost savings — between $8,000 and $500,000. The remainder of the squadrons did not estimate the cost savings.

Implementation of maintenance quality system was delayed

32.87 The final lesson learned from Cold Lake that we felt worthy of dissemination across the Air Force involved the adoption of a quality management system. Since our 1996 audit, the Air Force has introduced AF 9000 Plus, a quality management system that follows the ISO 9001 standard and adds unique Air Force requirements. The Air Force has accepted AF 9000 Plus as a standard for implementation in all areas of engineering and maintenance. Although 48 organizations within National Defence, including squadrons and Headquarters directorates, have set dates for achieving AF 9000 Plus registration, only one squadron has achieved registered status. Planned registration dates for most organizations continue to be deferred.

Efforts to train aircraft maintenance technicians for multiple skills failed

32.88 One of the success stories we reported in 1996, the reduction of the

Efforts to improve aircraft maintenance productivity have been relatively successful (see paragraphs 32.84-86).

number of aircraft technicians occupations from 12 to 3, has turned out to be problematic. The intent behind the reduction in occupations was in part to meet personnel reductions and in part to increase productivity by "multi-skilling" aircraft technicians. The theory was that fewer people with more skills could thereby be employed.

32.89 However, the attempt to multi-skill technicians has encountered major setbacks in one of the three aircraft maintenance technician occupations. Some groups of technicians lacked the background and basic skills required. Ground staff told us that they were still relying on old qualifications to ensure that staff were adequately trained to repair aircraft. One of the three occupations is particularly problematic; the training for technicians is not sufficient to give them an acceptable level of understanding of all aspects of their new trade, including electrical theory, schematic reading and weapons safety procedures. Essentially, the occupation is so broad that technicians are incapable of becoming proficient in all required areas. The Department is currently analyzing the three occupations and states that the review may result in the creation of new occupations. This may reduce the level of savings achieved by the initiative, as more specialists may be required to do the work.

Base/Wing Supply

32.90 Where we were able to make a direct comparison between personnel currently employed in base/wing supply sections and those employed in 1996, we found that staff had been reduced by 540 or 24 percent. According to the 1999 Supply Chain Project business case, the total cost of operating the static portion of the supply chain (warehousing, distribution, inventory management and receipt and dispatch) is estimated at $366 million for fiscal year 1999-2000. We found significant changes in the nature and conduct of the work now being carried out in base/wing supply sections.

32.91 When we measured labour productivity in our 1996 audit, we found that in spite of some major improvement initiatives, productivity in the base/wing supply function had declined 10 percent from 1992-93 to 1995-96. This was because the level of activity fell more rapidly than the level of supply personnel. We recommended that National Defence monitor transaction costs and volumes per employee as indicators of performance, and that such performance information be readily available to managers.

Performance information remains limited

32.92 Improvements in the availability of performance information meant to assist base/wing level staff in measuring performance remain limited. For example, only a few of the bases and wings reported that they were using performance information such as transaction costs and volume per employee.

32.93 Ten of the 16 bases and wings felt they had insufficient or limited cost, performance or productivity information and one half noted specific deficiencies with the current information available. Nevertheless, 10 bases and wings reported notable improvements in the performance data available, while 6 either reported no significant improvements or did not identify any.

32.94 The most common reasons cited as impediments to the measurement and monitoring of supply productivity by base/wing supply organizations centred around four themes: lack of information systems and tools, information gathering and measurement practices that are too labour-intensive, lack of human resources needed to obtain and track information, and procedures for measuring and monitoring of productivity that are not mission-essential.

32.95 The Base Materiel Information Management System (BMIMS) was introduced over a three-year period ending in December 1999 to aid users in coping with downsizing and changes in business processes. It is serving as an interim tool pending implementation of the Canadian Forces Supply System Upgrade scheduled for the spring of 2001. While the BMIMS has some tracking capability, departmental officials state that its use as a performance measurement tool is limited.

Interim information system capabilities to measure supply management productivity remain limited.

32.96 One notable exception to the general lack of performance information within the overall supply chain is the Canadian Forces Supply Depot in Montreal (25 CFSD). Here we found that management is using performance information for management purposes. Departmental officials told us that similar performance management information is being used by the 202 Workshop, an equipment repair depot, and by the Canadian Forces Supply Depot in Edmonton.

Base/wing supply organizations do not know whether their performance has improved or declined (see paragraph 32.98).

Massive organizational, operational and process changes have occurred

32.97 The period since our previous audit in 1996 has been tumultuous for base/wing supply organizations. All 16 bases and wings who responded to our information request indicated significant changes in the structure of their supply organizations. More than half reported at least four or more significant changes. The bases and wings also reported numerous operational and process changes over the past four years. Some of these changes were made in response to budget and personnel reductions, while others were required as a result of the devolution of responsibilities previously carried out by other departmental organizations.

32.98 We found that there is a lack of clear consensus across bases and wings on whether the performance of base/wing supply has improved or declined as a result of all the recent changes. Finally, and most important, National Defence cannot measure the overall impact of all these changes on supply performance at the base/wing level. Exhibit 32.4 presents the operational and process changes that have occurred in base/wing supply organizations over the last few years.

Base/Wing Commercial Vehicle Maintenance

32.99 The light commercial vehicle fleet currently consists of about 5,100 vehicles, with a replacement value of $132 million. The base/wing vehicle maintenance sections included in our review currently employ 1,250 people.

32.100 In 1996 we audited the Department's light commercial fleet of cars and trucks and recommended that the Department review and manage the impact of its aging vehicle fleet on overall vehicle maintenance productivity. We also recommended that the Department assess the results of the vehicle disposal pilot projects under way and conduct negotiations with the Treasury Board to reach the most cost-effective solution; this should include determining the incentives that should be built into the overall system. We further recommended that the Department maximize the use of the vehicle warranties that it had purchased.

Information on productivity and warranty use is unknown

32.101 National Defence acquired a maintenance management software program to automate a paper-based control system in land equipment maintenance organizations at Canadian Forces bases and units. Installation of this product was completed in 1999. However, as a result of the Department's implementation problems, including inadequate instruction on how to record data in the system, the Department has introduced a recovery plan. The plan indicates that the accuracy of the data on productivity and warranty use entered into the new program throughout 1999 is questionable. As of January 2000, the recovery plan was estimated to cost $650,000, which includes three full-time personnel on contract.

32.102 The information requests we sent to vehicle maintenance staff at bases and wings confirmed the implementation problems with the new software program. Only 10 of 17 bases and wings indicated that they could extract information from the program. Eight of the 10 reported various problems, including incomplete, inaccurate data that could not be used for maintenance planning or tracking warranty use. As we were unable to obtain 1999-2000 performance data on either vehicle maintenance or warranty use, we were unable to assess productivity trends since our last audit. Nevertheless, all of the bases and wings that responded to our information request stated that they encouraged warranty use when feasible.

The initial implementation of a maintenance management system for vehicles has failed to meet objectives.

Progress has been made in the vehicle disposal process

32.103 Partly as a result of a successful pilot project developed and conducted by National Defence in 1996, Public Works and Government Services Canada has issued two National Master standing offers for remarketing. These standing offers currently authorize National Defence and 25 other federal departments to dispose of

Exhibit 32.4

Operational and Process Changes in Base/Wing Supply Organizations

Operational and Process Changes by Type	Number of Bases/Wings Reporting Change
Procurement and Local Purchasing	14
Customer Assistance or Service	14
Warehousing	13
Invoice/Accounts Verification	11
Receipts and Issues (including packaging)	10
Inventory Control/Stocktaking	9
Training and Education	9
Unit Materiel Control (Distribution Accounts, entitlements)	9
General Administration and Management	9
Transportation and Delivery	8
Cross-docking	7
Special Items (hazardous materiel, weapons)	7

Source: Office of the Auditor General survey data vehicles through two private auction companies that have recently been amalgamated.

Better vehicle disposal management saved $750,000 in the first year of the program.

32.104 Departmental officials claim that the commissions for disposal previously charged by the Crown Assets Disposal Corporation have been reduced from 30 percent of the purchase price of each vehicle to 4.45 percent. In 1999, the first year that the new disposal process was adopted across the Department, the cost savings amounted to $750,000. We found that 14 bases and wings have used the process and half of them have received the proceeds from the sale of the vehicles to reinvest in their fleets. Departmental policy now provides for the proceeds from the sale of locally managed materiel, which includes vehicles, to be returned to an organization that has the budget to purchase that type of asset. This policy provides an incentive that previously did not exist in the vehicle fleet management process.

32.105 With the help of the new disposal process and the potential for returning proceeds back to the fleet manager, the Department is now able to make better life cycle decisions with the aim of reducing the age of the fleet. Departmental officials have briefed many fleet managers and maintainers on the state of the fleet and how a new reduced life cycle should be implemented. Seven fleet managers have already started to renew their fleets with the objective of reducing the impact of their age.

Base/Wing Transportation

32.106 Base/wing transportation sections provide local transport for passengers and cargo. They also operate special-purpose vehicles such as forklifts and snowploughs. In 1996 the Department had over 9,200 civilian pattern vehicles in its fleet, while in 2000 this number has increased to approximately 10,000. Base/wing transportation sections currently employ approximately 1,300 people.

Availability of performance information has improved significantly

32.107 With the introduction of the vehicle Fleet Management System to all

Better information is needed for vehicle maintenance and warranty use (see paragraph 32.102).

bases and wings in 1998-99, transportation managers now have access to much improved performance management data. We reviewed the documentation pertaining to the Fleet Management System and found that the system includes a variety of data on transportation activities, drivers and vehicles, as well as pertinent performance information and indicators.

32.108 Nearly all of the base/wing transportation staff who responded to our information request confirmed that the introduction of the Fleet Management System has improved their capability to obtain relevant performance information in managing their vehicle fleets.

Gaining full benefit from the new system will require further effort

32.109 Although the availability of data has improved significantly, we believe that additional effort will be required to ensure that management and performance information is effectively used and integrated with management processes and decisions. About half of the respondents to our information request concur.

32.110 Respondents told us that there are a number of impediments to improving the use of productivity information for management purposes. These impediments include the lack of training for the Fleet Management System, lack of resources to properly analyze and use the improved performance data, and weaknesses in the interface of the Fleet Management System with other system applications. Departmental officials informed us that efforts are now under way to address training deficiencies, including the use of performance measures now available through the Fleet Management System.

32.111 We are concerned that even with improved training and use of appropriate performance information, certain aspects of the overall management of the transportation function remain beyond the control of base/wing transportation staff. For instance, should sufficient funding not be available to acquire new vehicles at the optimal time, appropriate decisions based on the best performance information system cannot be made. Although tradeoffs in funding are always part of the management process, it is important to ensure that the motivation to make appropriate cost-effective decisions is not lost.

The change in productivity of base/wing transportation operations is unknown

32.112 Base/wing transportation operations have not been immune to the massive change affecting the Canadian Forces across the country. However, there is no consensus on whether the changes within the base/wing transportation organizations have led to an increase or decrease in productivity.

The Department has made significant changes to transportation services, but has not measured whether productivity has increased or decreased.

32.113 Nine of the 16 bases and wings we contacted reported four or more significant changes involving light commercial vehicle transportation operations, processes or functions in the past four years. Like other support operations, there has been confusion surrounding the devolution of responsibilities, accountabilities and operating budgets to the base/wing levels. Given the degree of change, and the lack of management information on productivity, we have been unable to determine whether there has been a change in base/wing transportation productivity.

32.114 Probably the largest change made by base/wing transportation sections across the Canadian Forces has been the increased use of the user-driver concept. At the time of our 1996 audit, professional drivers employed by the transportation sections drove the majority of cars and light trucks; now, those that need transportation drive themselves, thereby eliminating the need for a professional driver. The remaining professional drivers, for the most part, now drive heavier equipment and special purpose vehicles. Although the number of professional drivers has decreased, the number of vehicles required has increased. Departmental officials could not provide an analysis to confirm whether the increased use of the user-driver concept has led to an increase or decrease in productivity.

Information to Parliament

There are two main reports to Parliament

32.115 External reporting requirements for federal departments focus primarily on two annual reports to Parliament — the Report on Plans and Priorities and the Departmental Performance Report. These documents require a focus on intended results, strategies for achieving them and measurements of these achievements.

32.116 The government's Expenditure Management System (EMS) is a cyclical process by which the government establishes broad national priorities and a budget strategy, arrives at a national budget decision and issues subsequent direction from which federal departments create their business plans. The Planning, Reporting and Accountability Structure (PRAS) outlines how departments will implement a business approach to planning, how they will report achievements against agreed business lines, and how they will be held accountable for delivering identified outcomes.

There is still no performance measurement system in place

32.117 Although National Defence and the Canadian Forces have made attempts to develop performance measurement systems for over two decades, their efforts have fluctuated with the priorities of management and the issues of the day. While the Department's senior strategic guidance for 2000 stated that performance measures and indicators would be included in the guidance for the following year, the guidance for 2001 in fact contains only brief mentions of the measures, with no details and no indicators. As well, the three-year time frame for the implementation of the new measures has been removed.

32.118 There have been a number of false starts and little continuity of leadership in efforts to improve performance measurement. Environmental Chiefs of Staff and Group Principals recognize the need for further effort to integrate their own performance measurement systems with the departmental reporting system.

32.119 To comply with the Treasury Board Secretariat's guidelines, the Department needs to improve its reporting in important areas. Better linkages are required between activities/accomplishments and results/outcomes. As well, the Department needs more balanced reporting that identifies performance shortfalls, opportunities for improvement, and corrective measures taken to improve future performance. Without adequate performance measures in place, it is not possible to measure achievements against desired outcomes, nor to determine the extent of any shortfalls.

32.120 In our 1996 audit, we recommended that National Defence develop meaningful measures of its support activities and include the most significant ones in its reporting to Parliament. This has yet to be done.

Limited Progress in Renewal Efforts

32.121 Although the Department's five-year renewal program is well under way, more work remains. While some Defence officials explain that the Department is now in a "continuous improvement mode," we believe it is important to determine the root causes of the apparent lack of progress on implementing the recommendations included in our 1996 Report. We therefore adopted a model that categorizes possible factors impeding institutional renewal. Exhibit 32.5 describes the four factors considered in the model. The results of our analysis are portrayed in Exhibit 32.6.

32.122 Competing pressures are the most powerful factor that has impeded the progress in implementing our 1996 recommendations. This suggests defence support productivity has had a low priority among the Department's other competing objectives. There can be no doubt that National Defence has experienced significant personnel and budget reductions and faced significant other priorities during the five-year renewal period.

32.123 Transitional problems are identified as the second most likely factor that has impeded progress. This suggests that trying to do too much at once, without having a clear strategic plan including the training and tools in place to affect the desired change, contributed to the lack of progress. We found that the Department had encountered difficulties trying to manage the massive renewal efforts without a clear corporate vision and a strategic plan supporting this vision. In many instances, we noted a breakdown in communications and lack of training and tools to implement changes. However, in terms of strategic planning, the Department has recently produced a document entitled *Shaping the Future of the Canadian Forces: A Strategy for 2020*. The strategy embodied in the document articulates National Defence's vision, overall long-term objectives and short-term targets for the future, but does not deal with the specifics of its renewal plans.

Exhibit 32.5

Institutional Reform Model

State of the Organization	Characteristics
Normal	• There is no evident dysfunction. Confusion, fatigue and counter-productivity are normal during a period of monumental change; there remains a willingness to pursue change.
Competing Pressures	• Rupture between official statements and concrete efforts is evident; concerns are of low (if any) priority among other issues. • Attention is being paid to other priorities; no resources (time, money, support) are left; people are left alone with their problems. • Timing is unrealistic.
Ideological Problems	• The objectives are not suitable (wrong medication); they are incompatible with the needs or the architecture (base/wing concept); impacts are underestimated. • There is open resistance to the nature of the change and evident dysfunction.
Transitional Problems	• The medication is right (objectives are appropriate) but dosage is wrong (administration problem): not enough support/training/communication. Deficiencies exist in the reallocation of resources, passive resistance is unchallenged, and negative leadership is not counterbalanced by affirmative actions. • Problems are not content-related but are associated with implementation.

Source: Managing Change, June 1994

32.124 Departmental officials told us that the next step is to design an action plan including targets, priorities, communication plans, and training programs, which will support Strategy 2020 but also guide its actions during the transition period. This action plan is currently under development in the Directorate of Strategic Change and will support Strategy 2020 while reflecting the new reality of National Defence and the Canadian Forces. However, the Department has yet to provide a date for implementation of the action plan.

32.125 Many people we interviewed indicated that they were experiencing confusion and change fatigue, which is a normal state in an institution undergoing massive renewal. However, they remained willing to pursue change.

32.126 National Defence should continue to develop and implement its action plan "Toward a Modern Management Agenda". It should place priority on giving staff who are managing support activities the performance measurement tools and cost information necessary to ensure that cost-effective support is delivered to operational units. Wherever possible, the Department should provide these staff with appropriate incentives, such as the recently introduced policy on a unit's authority to retain the savings from the disposal of surplus assets.

National Defence's response: *The Department continues to face many challenges and competing priorities that impede its ability to increase defence support productivity. Notwithstanding the massive organizational, financial,*

Exhibit 32.6

Analysis of Lack of Progress in Implementing 1996 Recommendations

1996 Recommendation Reform Audit Area	Model Category that Best Describes Lack of Progress			
	Normal	Competing Pressures	Ideological Problems	Transitional Problems
Business Planning		1		2
Operating Budgets		2		1
Culture		1	Y	
Change Co-ordination		1		2
Alternative Service Delivery			1(X)	2
Individual Training		1		2
Aircraft Maintenance		1(Y)		2
Base Supply		1		2
Base Vehicle Maintenance		1		2
Base Transportation		1		2

Source: Office of the Auditor General analysis

Legend:

1 - Indicates the model category "most applicable".

2 - Indicates the model category "next most applicable".

(X) The two major alternative service delivery projects we reviewed may result in job losses or significant employment changes for the Department's civilian employees and the military members of the Canadian Forces.

(Y) There has been some positive progress toward improving aircraft maintenance productivity, but efforts to implement a quality management system are low on the list of the Air Force's priorities.

doctrinal and cultural changes that this Department has been undergoing, some substantial improvements have already been made. For example, the business planning process has resulted in a greater awareness of the need to consider the resource impacts in defence decision making at all levels. It has been a significant tool in helping all levels cope with the implementation of reduced budgets by fostering fundamental change as opposed to arbitrary budget reductions and non-prioritized change programs. Another significant achievement has been the Department's recently introduced strategic plan entitled, "Shaping the Future of the Canadian Forces: A Strategy for 2020". This document will provide the overarching guidance necessary to manage change in the future.

As one of twelve pilot departments, National Defence is committed to the development of a Modern Comptrollership Action Plan that will move it toward a modern management agenda. This Action Plan is founded on a baseline study that identified priority areas for improvement. In light of high workloads identified in the Public Service survey and the Department's own D2000 survey, the Department has decided to build upon four key management initiatives already under way rather than launching new projects to address all priority areas. These key management initiatives form the pillars of the Modern Management Action Plan, the Financial Information Strategy, the Integrated Defence Management Framework, the Information Management Strategy, and Human Resources initiatives. A key commitment has been made to managing the integration of the four pillars of modern management through a governance structure led by the Deputy Minister.

The Department acknowledges that its progress with respect to some of its costing objectives has been less than hoped. However, this slow progress pertains principally to the fully integrated implementation of activity-based costing. Preparing for Y2K and responding to other governmental priorities such as the Financial Information Strategy and the implementation of accrual accounting have resulted in largely unavoidable delays in integrating activity-based costing throughout the Department. Regardless of the challenge we still face in terms of achieving a fully integrated activity-based costing capability, the Department's decision-making process has not suffered in the interim. Decision makers have access to a considerable amount of information, particularly at the strategic level. In fact, very few public sector organizations produce as much costing information and guidance as does National Defence. Despite this success, the Department has plans to further develop both cost and performance information. The comprehensive evaluation of information needs for management at all levels is being conducted through the development of the Integrated Defence Management Framework. With respect to performance measurement, the development of the Department's performance measurement framework is an iterative process that will continue to be refined. An important milestone in this development is the inclusion of performance measurement targets for 2001.

The Department will continue to implement change activities that will have a positive impact on defence support productivity. That said, the business planning process rationalizes the decision process to ensure that those activities that have the highest impacts on delivery of the capabilities called for in the 1994 White Paper are carried out while reducing or eliminating lower-priority activities.

Conclusion

Management renewal efforts remain a work-in-progress largely because of the lack of resources to properly complete them and the lack of an overall plan against which efforts can be assessed.

32.127 Overall, the Department's five-year renewal program remains a work-in-progress. The base/wing defence support organizations have undergone significant organizational, operational and process changes. Neither we nor the base/wing resource managers can determine whether these changes have increased or decreased the productivity of vehicle maintenance, supply and transport operations.

32.128 The key tools introduced as part of the renewal program, namely business plans and operating budgets, continue to evolve as management tools.

32.129 Departmental business plans at all levels do not address the measurement of productivity through use of any target performance information. Most base/wing level organizations are attempting to identify the data sources from which to develop performance information.

32.130 There have been significant unintended consequences from the introduction of operating budgets. The Department has recognized this and is in the process of developing action plans to address the situation.

32.131 The failure to track and report the results of the major re-engineering exercise at National Defence Headquarters, which finished in June 1997, leaves a significant gap in what has really been achieved by those having the responsibility to implement the plans. The Department's efforts to change its culture to a more businesslike environment also remain a work-in-progress. The newly created Directorate of Strategic Change has responsibility for addressing the various change initiatives and the cultural reform initiative.

32.132 Efforts to improve the productivity of aircraft maintenance appear to have been successful, although the introduction of a management program for maintenance of quality has been delayed.

32.133 We can only conclude that much remains to be done before the productivity of defence support functions can be measured and the results used in making such functions more cost-effective.

About the Audit

Objectives

The objectives of the audit were:

- to report to Parliament on whether recommendations and observations raised in our 1996 chapter had been addressed by National Defence;
- to determine whether management action taken would likely correct deficiencies;
- to re-audit support productivity in the areas of individual training, base commercial vehicle maintenance and base transportation for the four intervening years (1996 to 2000), and report to Parliament on the changes; and
- to determine the reasons for delays in implementing our 1996 recommendations to improve defence support productivity.

Scope

We examined each of the recommendations made in our 1996 chapter. For review purposes, we classified each of the recommendations into one of two groups.

For the first group of recommendations, we performed a re-audit and attempted to re-measure the progress toward improving support productivity. This group included the base/wing commercial vehicle maintenance and transport support functions and the individual training function at the schools and managing authority level. We were only able to re-measure the individual training function because of massive organizational and process changes in the other support areas.

For the second group of recommendations, we conducted interviews with officials at the national, regional and base/wing levels. We also gathered and analyzed documentation to support the Department's contentions on management action taken. This group included business planning, operating budgets, culture, change co-ordination, two alternative service delivery projects, aircraft maintenance, base/wing supply operations and information to Parliament.

In particular, we drew review data on business planning, operating budgets and other information from a set of information requests sent to 23 bases/wings and 33 squadrons. In addition, we gathered information on issues related to individual training by sending information requests to 42 schools and the four managing authorities that oversee the schools.

Criteria

To assess the progress made on implementing our recommendations, we used the goals specified by the Department in its initial response to the 1996 chapter. Where applicable, we also reviewed trends over time and management action taken or about to be undertaken to address the deficiencies identified in 1996.

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Appendix

Departmental Progress Made Against 1996 Recommendations of the Auditor General

Recommendations	Assessment of Progress		
	Fully met	Partially met	Not met
National Defence should ensure that it maintains a centre for the co-ordination of change. The centre should continue to track the activities of major initiatives, address common problem areas, and report to senior management. In addition, it should continue to ensure that procedures are in place to communicate information on best practices and bring any delays or conflicts to the attention of senior management (paragraph 34.32).			✓
National Defence should continue to monitor those employee beliefs and values on which its new management system depends. It should strengthen measures to ensure that management systems support the desired culture (34.41).			
National Defence should develop and make available cost and performance data to support business planning. It should establish dates by which such data are to be available at each planning level (34.47).		✓	
National Defence should ensure that managers know how to use operating budgets and should provide them with incentives to do so (34.54).		✓	
National Defence should move as quickly as possible to communicate information throughout the entire Department on the improvements achieved by the three most successful bases (34.68).		✓	
National Defence should monitor transaction costs and volumes per employee as indicators of performance. Performance data should be readily available to managers (34.69).			✓
National Defence should install productivity measurement in all base transportation sections. It should set a date by which measures will be in place and set goals for raising the productivity of below-average units (34.78).		✓	
The Department should monitor the productivity of personnel in base transportation operations and adjust the number of personnel according to needs (34.79).			✓
National Defence should review and manage the impact of the age of its vehicle fleet on overall vehicle maintenance productivity and make whatever changes are necessary to increase productivity (34.85).		✓	
The Department should assess the results of the disposal pilot projects and conduct such negotiations with the Treasury Board as are necessary to reach the most cost-effective solution, including determining what incentives should be built into the overall system (34.86).	✓		

Recommendations	Assessment of Progress		
	Fully met	Partially met	Not met
The Department should maximize its use of the vehicle warranties it has purchased (34.87).		✓	
Air Command should apply the lessons learned at Cold Lake at all bases possible (34.99).		✓	
Air Command should provide unit managers with reliable cost information at the earliest possible date in order to improve decision making and accountability (34.100).		✓	
National Defence should assess its need for any instructors and support staff above the 1990 level per student as soon as possible and adjust staff levels on a continuing basis thereafter to meet actual needs (34.108).			✓
National Defence should develop meaningful measures of its support activities and should include the most significant ones in its reporting to Parliament (34.111).			✓

Source: Report of the Auditor General of Canada, Chapter 34, National Defence – Support Productivity, 1996.

Report of the Auditor General of Canada to the House of Commons – 2000

Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6

5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry

6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter	
15	Health Canada – First Nations Health: Follow-up
	Other Observations
16	Follow-up of Recommendations in Previous Reports
17	Other Audit Observations

Volume 3 – December 2000

Chapter	
	Matters of Special Importance – 2000 Foreword and Main Points
18	Governance of Crown Corporations
19	Reporting Performance to Parliament: Progress Too Slow
20	Managing Departments for Results and Managing Horizontal Issues for Results
21	Post-Secondary Recruitment Program of the Federal Public Service
22	Development of the Universal Classification Standard: A Follow-up
23	Information Technology: Acquisition of Goods and Services
	Protecting Health and Safety
24	Federal Health and Safety Regulatory Programs
25	Canadian Food Inspection Agency – Food Inspection Programs
26	Health Canada – Regulatory Regime of Biologics
27	Canadian Nuclear Safety Commission – Power Reactor Regulation
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29	Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31	Fisheries and Oceans – Fleet Management
32	National Defence – Defence Support Productivity: A Progress Report
	Other Observations and Appendices
33	Follow-up of Recommendations in Previous Reports
34	Other Audit Observations
35	Sustainable Development Strategy for the Office of the Auditor General

Report of the

Auditor General of Canada

to the House of Commons

Chapter 33

Follow-up of Recommendations in Previous Reports

Chapter 34

Other Audit Observations

Appendices

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

© Minister of Public Works and Government Services Canada 2000
Cat. No. FA1-2000/3-34E
ISBN 0-662-29592-7
Copies françaises aussi disponibles

Chapter 33

Follow-up of Recommendations in Previous Reports

The follow-up work was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

Table of Contents

Page

Main Points 33-5

Introduction 33-7

Fisheries and Oceans — Sustainable Fisheries Framework: Atlantic Groundfish — 1997, Chapter 14, Rationalization and Renewal: Atlantic Groundfish — 1997, Chapter 15 and Managing Atlantic Shellfish in a Sustainable Manner — 1999, Chapter 4 33-10

Human Resources Development Canada — A Critical Transition Toward Results-Based Management — 1997, Chapter 17 33-16

Revenue Canada and Department of Finance — Understanding Changes in Tax Revenues: GST — 1997, Chapter 32 33-20

Revenue Canada — Awarding a Duty Free Shop Licence — 1997, Chapter 36 33-23

Revenue Canada, Department of Finance and Department of Justice — Interdepartmental Administration of the Income Tax System — 1998, Chapter 5 33-24

Population Aging and Information for Parliament: Understanding the Choices — 1998, Chapter 6 33-27

Federal Laboratories for Human and Animal Health Building Project — 1998, Chapter 7 and Canadian Security Intelligence Service — National Headquarters Building Project — 1996, Chapter 8 33-29

Promoting Integrity in Revenue Canada — 1998, Chapter 15 33-34

Management of the Social Insurance Number — 1998, Chapter 16 33-37

Financial Information Strategy — 1998, Chapter 18 and 1999, Chapter 21 33-40

Veterans Affairs Canada — Disability Pensions — 1998, Chapter 23 33-44

Revenue Canada — International Tax Directorate: Human Resource Management — 1998, Chapter 24 33-48

Grants and Contributions: Selected Programs in Industry Canada and Department of Canadian Heritage — 1998, Chapter 27 33-52

Follow-up of Recommendations in Previous Reports

Main Points

33.1 This year's reports indicate that some entities have been more successful than others in implementing corrective action. We noted satisfactory progress in some areas by several entities, but we also noted numerous areas where progress is disappointing. Some entities have made a good start in implementing changes, but have slowed down in completing them. Few entities get a "well done" for speedy implementation. We urge all departments and agencies to make a greater effort to accelerate their implementation plans.

33.2 Our 1998 audit of selected grant and contribution programs of **Industry Canada** and the **Department of Canadian Heritage** identified weak management practices. Our follow-up found that Industry Canada is making reasonable progress in addressing our recommendations. However, we uncovered a new issue — a $20 million payment in advance of need resulting in as much as $5 million of interest costs to the government. We found that the Department of Canadian Heritage has not made sufficient improvement in the management of grants and contributions under its Multiculturalism Program. Program objectives remain unclear and there are still serious problems with due diligence. We plan to report again next year on the Department's progress in remedying these problems.

33.3 Our follow-up of three previous chapters on Atlantic fisheries management found that **Fisheries and Oceans** is moving forward with a plan for the development and approval of a sustainable fisheries framework and the development of a new approach to fisheries management for the Atlantic fisheries. While the plan appears to address our key recommendations, the Department still needs to finalize the policy and develop detailed processes, procedures and legislation to support the new approach to fisheries management. Only then can we conclude that our recommendations have been fully addressed.

33.4 Since our report on **Population Aging and Information for Parliament**, the budgetary process has become more transparent and forward looking. The adjustment of budget forecasts for "prudence" is now shown explicitly, rather than embedded in the revenue and expenditure projections. In addition, the fiscal outlook has been extended from two years to five years. This, however, still falls short of what is needed to show the impact of the impending demographic shift one to three decades ahead.

33.5 The departments and agencies responsible for the planning and construction of the **Canadian Security Intelligence Service headquarters** and the **federal laboratories for Human and Animal Health** have taken action on most of the original audit recommendations and observations. However, the laboratory facilities in Winnipeg remain significantly underutilized. The Treasury Board Secretariat has only recently initiated a review of its monitoring role and methodology to ensure an appropriate level of oversight over major Crown projects. Public Works and Government Services Canada has not resolved certain contracting issues such as the definition of errors and omissions in contract documents and introducing meaningful incentives for reducing costs.

33.6 After our audit of the management of the Social Insurance Number (SIN), the government took steps to improve the integrity of data in the Social Insurance Register. **Human Resources Development Canada** has increased the number of investigations of SIN fraud and abuse and actions to address other issues identified by our audit are under way. However, a comprehensive study of the impact and extent of use of the SIN is still needed to fully understand the practical, economic and political implications of its use.

33.7 The government has made progress in its efforts to implement its **Financial Information Strategy** but considerable work is needed to ensure that the financial systems and accrual accounting policies will be in place by the April 2001 deadline. The longer-term integration of better financial information into day-to-day management decision making remains a challenge.

33.8 In addition to those mentioned above, this chapter includes follow-up reports on the **Canadian Customs and Revenue Agency**, the **Department of Finance**, **Human Resources Development Canada** and **Veterans Affairs Canada**. Other follow-up work is reported in different chapters throughout our reports.

Introduction

33.9 It is our policy to make recommendations in all of our audits that are oriented toward correcting current or future problems and improving the management of government. We encourage entities that we audit to respond to our recommendations in writing, stating whether they agree with them, and how they plan to implement corrective action. We, in turn, publish their responses in our report to inform Parliament and the public.

33.10 Approximately two years after the initial audit, we return to determine what corrective action has been taken by the entity. This work forms the basis of our follow-up report.

33.11 It is important to understand what a follow-up is, and is not. Apart from a few unique situations, it is not a second audit of the same issues. Rather it is a report on what management tells us, or can demonstrate to us, about the progress it has made toward meeting our recommendations. We do not exhaustively seek or examine additional evidence to support or refute what management has told us, but we do review its claims for reasonableness and report to Parliament accordingly.

33.12 This year we have included follow-up in each of our reports. In October, Chapter 16 contained the follow-up report on six previous audits. Other follow-up work is reported in different chapters throughout our reports (see Exhibit 33.1).

33.13 This chapter contains our follow-up reports on 16 chapters and one other audit observation, reported originally between 1996 and 1999. In addition, the status of 19 chapters reported between 1993 and 1998 and due for follow-up is outlined in Exhibit 33.2.

33.14 This year's reports indicate that some entities have been more successful than others in implementing corrective action. We noted satisfactory progress in some areas by several entities, but we also noted numerous areas where progress is disappointing. Some entities have made a good start in implementing changes, but have slowed down in completing them. Few entities get a "well done" for speedy implementation. We urge all departments and agencies to make a greater effort to accelerate their implementation plans.

Exhibit 33.1

Follow-up Work Reported in Other Chapters

Year and Chapter	Title	Responsible Auditor	Comments
1993			
22	Department of Transport – Airport Transfers	Basia Ruta	Included in Chapter 10, October 2000 Report.
1995			
5	Office of the Superintendent of Financial Institutions – Deposit-taking Institutions Sector	Jeff Greenberg	Reported in Chapter 16, October 2000 Report.
10	Crown Corporations – Fulfilling Responsibilities for Governance	Brian Strom	Included in Chapter 18, December 2000 Report.
24	Revolving Funds in the Parliamentary System: Financial Management, Accountability and Control	John Hodgins	Reported in Chapter 16, October 2000 Report.
1996			
3	Evaluation in the Federal Government	John Mayne	Included in Chapter 20, December 2000 Report.
5	The Reform of Classification and Job Evaluation in the Public Service	Katherine Elliott	Included in Chapter 22, December 2000 Report.
9	Agriculture and Agri-Food Canada – Animal and Plant Health: Inspection and Regulation	Neil Maxwell	Reported in Chapter 28, December 2000 Report. Further follow-up to Chapter 28, December 1998 Report.
14	Service Quality	Theresa Duk	Included in Chapter 1, April 2000 Report.
34	National Defence – Support Productivity	Peter Kasurak	Included in Chapter 33, December 2000 Report.
1997			
2	Financial Management: Developing a Capability Model	Bruce Sloan	An audit of five departments using the Financial Management Capability Model was reported in Chapter 13, October 2000 Report.
4	Control of the Transboundary Movement of Hazardous Waste	Rick Smith	Reported in Chapter 9, May 2000 Report of the Commissioner of the Environment and Sustainable Development.
5	Reporting Performance in the Expenditure Management System	John Mayne	Included in Chapter 19, December 2000 Report.
11	Moving Toward Managing for Results	John Mayne	Included in Chapter 20, December 2000 Report.
13	Health Canada – First Nations Health	Ronnie Campbell	Reported in Chapter 15, October 2000 Report.
19	Transport Canada – The Commercialization of the Air Navigation System	Hugh McRoberts	Air Navigation System component reported in Chapter 28, December 2000.
26	Canada Labour Relations Board	Jean Ste-Marie	Reported in Chapter 16, October 2000 Report.
27	Ozone Layer Protection: The Unfinished Journey	Rick Smith	Reported in Chapter 9, May 2000 Report of the Commissioner of the Environment and Sustainable Development.
30	Office of the Superintendent of Financial Institutions – Insurance and Pensions	Jeff Greenberg	Reported in Chapter 16, October 2000 Report.
1998			
3	National Defence – Equipping and Modernizing the Canadian Forces	Peter Kasurak	Reported in Chapter 16, October 2000 Report.
4	National Defence – Buying Major Capital Equipment	Peter Kasurak	Reported in Chapter 16, October 2000 Report.
13	National Energy Board	Roger Simpson	Reported in Chapter 28, December 2000 Report.
20	Preparedness for Year 2000: Government-Wide Mission-Critical Systems	Nancy Cheng	Included in Chapter 25, November 1999 Report.

Exhibit 33.2

Chapters Due for Follow-up

Year and Chapter	Title	Responsible Auditor	Comments
1995			
6	Federal Transportation Subsidies – *The Western Grain Transportation Act* Program	Hugh McRoberts	Deferred. Planned for 2001.
1996			
19	Revenue Canada – Child Tax Benefit and Goods and Services Tax Credit Programs	Basia Ruta	Deferred. Planned for 2002.
1997			
6	Contracting Performance	Shahid Minto	No follow-up is planned. Followed-up in part in Chapter 26, December 1998 Report.
10	Natural Resources Canada – Energy Efficiency	Rick Smith	Deferred. Planned for May 2001 Report of the Commissioner of the Environment and Sustainable Development.
25	Citizenship and Immigration Canada and Immigration and Refugee Board – The Processing of Refugee Claims	Liette Dumas-Sluyter	Deferred. Planned for 2001.
1998			
1	Expenditure and Work Force Reductions in the Public Service	Katherine Elliott	Deferred. Planned for 2001.
2	Expenditure and Work Force Reductions in Selected Departments	Katherine Elliott	Deferred. Planned for 2001.
8	Department of Finance – Effectiveness Measurement and Reporting	Jeff Greenberg	Deferred. Planned for 2001.
9	Reporting Government Financial Results: The Importance of Complying with Objective Accounting Standards	John Hodgins	No separate follow-up is planned. This was a study and will be followed up as part of ongoing attest audits.
10	Canadian Human Rights Commission – Human Rights Tribunal Panel	Alan Gilmore	Deferred. Planned for 2002.
11	Agriculture and Agri-Food Canada – Cash Advance Program	Neil Maxwell	Deferred. Planned for 2001.
12	Creation of the Canadian Food Inspection Agency	John Mayne	No separate follow-up is planned. This was a study and contained no recommendations.
14	Indian and Northern Affairs Canada – Comprehensive Land Claims	Grant Wilson	Deferred. Planned for 2001.
17	Patented Medicine Prices Review Board	Ronnie Campbell	Deferred. Planned for 2001.
19	Electronic Commerce: Conducting Government Business via the Internet	Nancy Cheng	Deferred. Planned for 2001.
21	Canadian International Development Agency – Geographic Programs	John Hitchinson	No separate follow-up is planned. This was the third installment of a phased follow-up reported in Chapter 13, 1995 Report and Chapter 29, 1996 Report.
22	The Federal Science and Technology Strategy: A Review of Progress	Peter Simeoni	No separate follow-up is planned. This chapter was a follow-up of Chapter 15, 1996 Report.
25	Transport Canada – Investments in Highways	Hugh McRoberts	Deferred. Planned for 2001.
26	Contracting Professional Services: Selected Sole-Source Contracts	Hugh McRoberts	Deferred. Planned for 2001.

Fisheries and Oceans — Sustainable Fisheries Framework: Atlantic Groundfish — 1997, Chapter 14, Rationalization and Renewal: Atlantic Groundfish — 1997, Chapter 15 and Managing Atlantic Shellfish in a Sustainable Manner — 1999, Chapter 4

Assistant Auditor General: Ronald C. Thompson
Director: Kevin Potter

Background

33.15 In our 1997 Report, we audited Fisheries and Oceans' management of the groundfish fisheries in Atlantic Canada. The groundfish fisheries had been sharply reduced following the near collapse of many of the commercial fisheries. In Chapter 14, we recommended that the Department identify the most likely relative contribution of the various factors related to the collapse of the groundfish stocks. We also recommended that the Department develop a strategy to further reduce capacity in the groundfish industry, establish measurable indicators and performance expectations, and develop a national fisheries policy framework related to sustaining the fisheries resource base. In addition, we recommended that the Department renew its efforts to have the government clarify fisheries objectives in legislation.

33.16 In Chapter 15 of our 1997 Report, we examined the Department's management of the licence buyback element of The Atlantic Groundfish Strategy (TAGS), its management of groundfish stocks, and its new partnership arrangements with fishers. We recommended that the Department ensure that accountability for conservation of stocks be an integral part of any arrangement with fishers, and that it improve key groundfish monitoring, control and surveillance systems and processes. We also observed that overcapacity continued to exist, even though 545 groundfish licences had been removed.

33.17 In our 1999 Report, we audited Fisheries and Oceans' management of the lucrative Atlantic shellfish fisheries. In 1997, shellfish landings had a value of $920 million, or 81 percent of the value of all landings in the region. We noted that serious deficiencies still existed in fisheries management. We recommended that the Department:

- develop a sustainable fisheries framework;
- have the government clarify its fisheries objectives in legislation;
- correct weaknesses in its shellfish monitoring, control and surveillance systems and processes;
- develop, over time and in consultation with fishers and other stakeholders, biological reference points and conservation guidelines as the basis for making recommendations on resource use; and
- clarify its objectives for co-management and, where necessary, seek parliamentary approval to implement this approach.

33.18 On 2 June 1999, the Standing Committee on Public Accounts issued its Thirtieth Report, based on its consideration of Chapter 4 of our 1999 Report. The Committee made nine recommendations to improve the Department's management of fisheries resources. Besides embracing our recommendations, the Committee recommended that the Department:

- thoroughly study harvesting capacity in the Atlantic fisheries;

- obtain an independent, objective assessment of its science capacity; and

- report to the Committee on the measures implemented to ensure that its use of specified purpose accounts and other financial arrangements with third parties adhere faithfully to legislative and policy requirements.

Scope

33.19 Our observations in this follow-up are based on a review of documents provided to us and on interviews with departmental officials. The documents we reviewed included:

- the Government's Response to the Thirtieth Report of the Standing Committee on Public Accounts, October 1999;

- the Department's status report for Chapters 14 and 15 of our 1997 Report and Chapter 4 of our 1999 Report; and

- the final draft of The Management of the Fisheries on Canada's Atlantic Coast — A Discussion Document on Policy Direction and Principles, September 2000.

The draft discussion document is intended to be used for public input in the development of a sustainable fisheries framework for the Atlantic fisheries, and is part of the Department's Atlantic Fisheries Policy Review.

Conclusion

33.20 The Department is moving forward with a plan for the development and approval of a sustainable fisheries framework for the Atlantic fisheries. Public consultation on the draft discussion document, The Management of the Fisheries on Canada's Atlantic Coast, is a key part of this plan. However, no date has been established for the development and implementation of the framework. The Department will have to work diligently to move the framework to full implementation.

33.21 The Department has informed us that legislative changes will not be considered until the sustainable fisheries framework has been fully developed and approved by Cabinet. We support this position.

33.22 Phase one of the Department's Atlantic Fisheries Policy Review (AFPR) is to define policy direction and goals. Phase two is to develop a new approach to fisheries management. The Department is moving forward with phase two while working on phase one. Even though the Department is in the early stages of developing its new fisheries management approach, Objective-Based Fisheries Management, we have noted that it appears to address recommendations in the Public Accounts Committee's report and our 1997 and 1999 reports.

Fisheries and Oceans will have to work diligently to move the sustainable fisheries framework to full implementation.

33.23 In our opinion, the Department's AFPR is a significant step toward addressing our key recommendations. However, the Department still needs to finalize the policy and develop detailed processes, procedures and legislation to support the new approach to fisheries management before we can conclude that our recommendations have been fully addressed.

33.24 The Department has been less successful in addressing the Public Accounts Committee's recommendation to have an independent, objective assessment of the Department's science capacity completed and reported to the Committee by 31 March 2000. The government responded to this recommendation by informing the Public Accounts Committee that it would conduct a review that would include an overview of science capacity in other countries with significant fisheries, and it would focus on the science required to support the Department's mandate. A consultant, under contract to the

Department's Review Directorate, is currently completing this review. In our opinion, the initial draft review does not meet the government's commitments to the Public Accounts Committee.

Observations

Phase One — The Atlantic Fisheries Policy Review and a new sustainable fisheries framework

33.25 In its draft discussion document, The Management of the Fisheries on Canada's Atlantic Coast, the Department proposes a policy framework that changes its role in fisheries management from "micro-manager, heavily involved in day-to-day operations, to policy and strategic direction-setter." While the discussion document does not endorse any one direction, it addresses four areas of fishery management: conservation, economic and social viability, access and allocation, and governance.

33.26 The Department proposed to have public consultations on the discussion document during the fall of 2000. Once consultations are finished, the Department plans to complete the development of its sustainable fisheries framework and seek Cabinet approval. The Department has informed us that if elements of the framework cannot be implemented within existing legislation, legislative change will be proposed.

Phase Two — The Atlantic Fisheries Policy Review and implementation of the framework

33.27 While not prejudging the outcome of phase one, the Department has begun detailed design work to implement some aspects of the sustainable fisheries framework. It plans to establish long-term conservation objectives or biological reference points, as a starting point for the management of individual fisheries. The Department will then set short- or medium-term conservation targets as part of the Objective-Based Fisheries Management approach.

33.28 Other key aspects of the new fisheries management approach include:

- risk management principles as the basis for management strategies;
- the precautionary approach (to err on the side of caution when making decisions);
- the ecosystem approach (to take into account inter-species relationships and habitat conditions); and
- monitoring, control and surveillance systems and processes that support management strategies.

The Department plans to pilot this new fisheries management approach for certain fisheries in the 2000–01 fishing season.

33.29 The Department has recently begun to develop a performance management framework that uses individual fisheries and Objective-Based Fisheries Management as its building blocks. This framework will inform the public and Parliament about the Department's conservation and sustainable use objectives and achievements by providing summary data for each fishery. The Department's draft Performance Report for the period ending 31 March 2000 refers to the development of a conceptual framework for measuring conservation outcomes. The implementation of the performance management framework depends on the implementation of the Objective-Based Fisheries Management approach for each of the 160 or more fisheries across the country.

33.30 The Department has responded to many of the recommendations raised in Chapter 14 of our 1997 Report, Chapter 4 of our 1999 Report and the Thirtieth Report of the Standing Committee on Public Accounts. However, the Department has much work to do to develop and implement a sustainable fisheries framework for Atlantic fisheries.

The Department is refocussing its monitoring, control and surveillance efforts

33.31 The Department has indicated that it is taking a more "strategic and integrated approach to traditional fisheries surveillance and enforcement." While this new approach has not yet been implemented, we observed several initiatives under way that do respond to our recommendations:

- The Department has developed new information systems to assist fisheries enforcement.
- The Department is piloting new techniques to integrate data from multiple sources (air- and sea-based enforcement, at-sea observers and dockside monitoring programs), in realtime, to better understand enforcement risks.
- The Department is considering using technology — for example, satellite-based technology — to streamline monitoring.
- The Department has created new positions and made new funding available to implement these initiatives.

33.32 Effective 1 January 1999, the regulations governing the dockside monitoring program were amended. The amendments were meant to strengthen the control environment surrounding the companies carrying out the dockside monitoring and to support more accurate and timely recording of landing information. Such regulatory change is important and responds to our recommendations. In addition, the Department has contracted an independent organization to assess the dockside monitoring companies' documentation and implementation of quality systems against standards developed by the Department. However, the Department has not yet implemented a process to assure itself that the dockside monitoring program is operating effectively.

Harvesting capacity is still being studied

33.33 We raised concerns about the limited impact of the Department's initiatives to reduce harvesting capacity, and about subsequent decisions to permit increased capacity in the crab and shrimp fisheries. The Public Accounts Committee recommended that the Department prepare a study on the harvesting capacity in the Atlantic fisheries, which would clarify the Department's definition of harvesting capacity, develop means to determine trends, and provide for harvesting capacity to be addressed in the Department's Performance Report, beginning with the report for the period ending 31 March 2000.

33.34 In March 1999, the United Nations Food and Agriculture Organization Council of Ministers approved the International Plan of Action to achieve efficient, equitable and transparent management of fishing capacity, preferably by 2003 and no later than 2005. The government's response to the Public Accounts Committee's recommendation indicated that Canada has pledged to become one of the first nations to complete a plan of action for the management of fishing capacity.

33.35 The Department has established a working group to develop Canada's plan of action. The measures to be developed that are relevant to the Public Accounts Committee recommendation include:

- developing a process to systematically measure the harvesting capacity of Canadian fisheries by the end of 2001;
- consulting with industry and the provinces during 2001 on harvesting capacity levels and options for an action plan; and
- developing plans to manage surplus capacity, if necessary, by the end of 2002.

The government's response to the Public Accounts Committee indicated that it would provide a status report on these initiatives in the Department's Performance Report for the period ending 31 March 2000. However, the draft Performance Report that we reviewed did not provide information on the status of these initiatives.

Further fishery restructuring and adjustment measures

33.36 On 19 June 1998, the government announced a series of measures designed "to provide individuals with options for their future, to help fishing communities diversify their economies and to encourage and capitalize on opportunities in a new economy." Some of these measures under the Canadian Fisheries Adjustment and Restructuring (CFAR) program apply to communities and individuals not only in Atlantic Canada and Quebec but also on the West Coast.

33.37 The CFAR objectives that pertain to Atlantic Canada are:

- to bring closure to TAGS;
- to continue the restructuring of the Atlantic groundfish fishery;
- to assist individuals and communities with adjustment; and
- to ensure balance and equity between regions.

The government has said that these objectives are to be achieved in consultation with provincial governments, where required.

33.38 A total of $760 million was allocated to implement the measures in Atlantic Canada. The measures offer a variety of initiatives to help people who permanently exit the fisheries to take advantage of new opportunities. These measures focus on long-term strategies for human resource and community economic development. The goal is to equip individuals and communities with the skills and assistance they need to prepare for life beyond the fishery.

33.39 Fisheries and Oceans is administering the CFAR groundfish licence retirement measure. At 1 August 2000, the Department had retired 1,902 groundfish licences at a cost of $167 million. A further 302 licences had been retired through early retirement measures administered through Human Resources Development Canada.

33.40 The removal of these groundfish licences is important to the management of the groundfish fishery. However, as we noted in paragraph 33.35, the Department is still developing the means to measure and, if needed, manage surplus harvesting capacity. Therefore, the Department does not know the impact of these measures on harvesting capacity.

Shellfish licences continue to be issued in Newfoundland

33.41 Our April 1999 Report commented on the potential adverse impact of new temporary shrimp and snow crab licences in the Newfoundland Region. Subsequent to that report, the Department issued an additional 59 temporary shrimp licences and 209 temporary snow crab licences to fishers in the Newfoundland Region. We continue to be concerned about the potential impact of these additional temporary licences on harvesting capacity.

Co-management arrangements: no change in status

33.42 Our recommendations concerning co-management arrangements with fishers focussed on the need to clarify the objectives for co-management and, if necessary, to seek legislative change to approve this approach. In addition, the Public Accounts Committee recommended that the Department outline the measures it has adopted to ensure that its use of specified purpose accounts and financial arrangements adhere faithfully to legislation and policy requirements.

33.43 The Department has not accepted the need to implement these recommendations. Its position is that it has sufficient legislative authority for all of its current co-management arrangements and activities. However, the Department has stated that its specified purpose accounts do not "operate strictly" within Treasury Board policy. The Department has indicated that it is awaiting Treasury Board clarification of its policy subsequent to an internal review.

33.44 The Department is still managing its co-management arrangements in the manner that we observed in 1999. However, it is reviewing its arrangements with fishers and their participation in fisheries management as part of the Atlantic Fisheries Policy Review. Therefore, it is possible that the review will address our concerns.

Science capacity review progress not adequate

33.45 The Public Accounts Committee recommended that the Department conduct an independent, objective assessment of the Department's science capacity and report the results to the Committee by 31 March 2000. The government's response to this recommendation informed the Public Accounts Committee that it would conduct a review using an external independent body. The review would include an overview of science capacity in other countries that have significant fisheries and it would focus on the science required to support the Department's mandate.

33.46 A consultant under contract to the Department's Review Directorate is currently completing the science capacity review. The initial draft review does not meet the government's commitments to the Public Accounts Committee.

33.47 Fisheries and Oceans' Science Branch has informed us that it is also conducting its own review of its stock assessment and other fisheries science capabilities.

The factors contributing to the collapse of cod stocks

33.48 An ongoing project of the Science Branch has been to "identify and weigh the relative contribution of the various components of cod mortality in the years leading to the collapse of the stocks." In the report Accounting for Mortality of Cod in the Canadian Atlantic, the Science Branch concludes that fishing during the years leading to the collapse was very high. Also, it concludes that natural mortality was at least twice the assumed value used in departmental stock assessments. However, in the end, the Science Branch cannot account for roughly one half the total cod mortality during the period that preceded the collapse of the cod stocks.

33.49 The report concludes:

> First, uncertainty is with us to stay, and resource use must be precautionary in light of both an uncertain present and a more uncertain future. Second, monitoring carefully and consistently many aspects of cod stocks, and many parts of ecosystems, is vital to understanding (and sometimes reducing) the uncertainty. Third, we need to integrate our information across stocks, geographic areas, and scientific disciplines, and then apply the integrated insights in scientific advice and resource management.

33.50 We believe that the Department's work on the issue of cod mortality adequately addresses our concerns.

Human Resources Development Canada — A Critical Transition Toward Results-Based Management — 1997, Chapter 17

Assistant Auditor General: Maria Barrados
Principal: Theresa Duk

Background

33.51 In 1997, we reviewed the information provided to Parliament on the results achieved by the Department's two largest programs: the Canada Pension Plan (CPP) and the Employment Insurance (EI) Account. Our audit focussed on two specific activities of Human Resources Development Canada (HRDC) — management of accounts receivable and protection of public funds against fraud and abuse.

33.52 We found that HRDC had made progress in implementing results-based management in the two activities we examined. But we noted that the information it provided to Parliament on the results of the CPP and the EI Account was incomplete.

Scope

33.53 In our follow-up work, we reviewed the progress reports prepared by HRDC in response to our 1997 recommendations and related recommendations of the Standing Committee on Public Accounts. We also conducted interviews and examined relevant documents.

Human Resources Development Canada (HRDC) has made good progress toward results-based management in managing accounts receivable and protecting public funds against fraud and abuse.

Conclusion

33.54 HRDC has made good progress toward results-based management in the two activities we had examined — managing accounts receivable and protecting public funds against fraud and abuse. However, we strongly encourage the Department to finish developing and implementing harmonized policies and its Departmental Accounts Receivable System in order to improve its results in recovering accounts receivable.

33.55 We found that information to Parliament is still incomplete. HRDC has made little improvement in the annual report on the Canada Pension Plan. And there is no single, comprehensive annual report on the Employment Insurance Account. The Chief Actuary's 1998, 1999 and 2000 reports on employment insurance premium rates are available on demand and can be accessed on HRDC's Web site. However, we believe the tabling of the actuarial analyses of the Chief Actuary would contribute to a better understanding by parliamentarians and the public of some of the factors used in setting premium rates.

33.56 We found that the Department's selected key performance indicators have remained relatively stable over the past three years. However, none of them measure costs and efficiency. Further, the Department needs to take steps to enhance the credibility of performance data.

Observations

Management of accounts receivable

33.57 **Progress toward fully integrating and harmonizing the management of accounts receivable.** In 1997, we recommended that HRDC finish implementing its strategy for integrating and harmonizing the management of accounts receivable.

33.58 Our follow-up found that the Department has made good progress in responding to the recommendations. However, it needs to give high priority to developing and implementing harmonized policies for all accounts receivable. It also needs to complete as soon as possible its new Departmental Accounts Receivable System (DARS), its accounts receivable sub-ledger. Employment Insurance and Old Age Security accounts receivable are scheduled to be transferred to DARS in 2001-02. About 80 percent of the total value of the accounts receivable portfolio has been transferred to date.

33.59 The Department recently drafted policies for review and approval on key issues in the recovery of accounts receivable such as collecting in cases of hardship and charging interest. The Treasury Board Secretariat's Interest Regulations have provided for the charging of interest on accounts receivable since April 1996. However, the charging of interest on EI and Income Security Programs (ISP) accounts receivable is not scheduled to begin until fiscal years 2001 and 2003 respectively.

33.60 HRDC has made progress in consolidating the management of collection activities and moving it to the Financial and Administrative Services (FAS) Division. However, program staff are still managing a large proportion of EI accounts, despite the fact that a recent analysis showed better cost recovery by specialized FAS collection agents.

33.61 Performance indicators and expectations used for a large proportion of the portfolio's total value. In 1997, we noted that not all key aspects of managing the accounts receivable portfolio had performance indicators and targets. Our follow-up found that HRDC has developed performance indicators for a large proportion of the portfolio's total value and has used the information from them to improve collection practices. It has established objectives for recovery of defaulted student loans, and the EI and ISP accounts, that are managed by its collection centres. However, there are no dollar value targets for recovery of the EI and ISP accounts managed by program staff.

33.62 Enhanced analysis of performance. In 1997, we noted that the Department was not fully analyzing changes in the cost effectiveness of collection activities and the quality of the accounts receivable portfolio. In our follow-up, we noted that HRDC evaluated the cost effectiveness of some collection methods such as using private collection agencies. It analyzed the trends in the aging of accounts receivable and in annual recovery rates, and it investigated the causes of changes in performance. It carried out a review of the portfolio's quality that led to significant write-offs. HRDC has informed us that an automated accounts receivable report it is developing will enable it to conduct more timely and thorough analysis of performance.

33.63 Improvements in collection practices. We recommended in 1997 that HRDC strengthen its collection practices in the EI program and ISP in order to make management more results-based. Management informed us, in our follow-up, that collection priorities for both EI and ISP accounts are based on debtor risk and profile. Further, in EI accounts collection, the debtor's assets are considered in assessing capacity to pay. However, this is not the case with ISP accounts. Amounts to be recovered from benefit payments before they are issued to debtors are predetermined by ISP, even if the debtor's assets would permit immediate recovery of the full debt or a large proportion of it.

Protection of program integrity

33.64 One of the Department's main objectives is to protect public funds against fraud and abuse — that is program integrity — in order to ensure that payments are made to all those applicants and only those applicants who are entitled to them. HRDC has activities in place to prevent, detect and deter fraud and abuse in the Employment Insurance Program and the Income Security Programs (ISP).

HRDC needs to give high priority to developing and implementing harmonized policies for all accounts receivable and to completing as soon as possible its new Departmental Accounts Receivable System.

Unlike those Employment Insurance and Income Security Programs accounts managed by its collection centres, HRDC has no dollar value targets for the recovery of the accounts managed by program staff.

The 1998-99 annual report of the Canada Pension Plan contained minimal information about its mandate, little linking of objectives to strategies, and little comparison of performance with expectations.

33.65 Protecting the integrity of Income Security Programs: Progress in measuring results and defining expectations. In our follow-up, we found that management has made good progress in establishing performance measures and defining expectations for the activities related to protecting the integrity of ISP. However, it has not yet developed a comprehensive single report that compares results with performance expectations. Management informed us that ISP is developing a quality management framework and quality monitoring processes, which are expected to make the management of the programs more results-based.

33.66 Protecting the integrity of the Employment Insurance Program: Improved analysis of performance. In 1997, we recommended that HRDC thoroughly analyze discrepancies between actual and expected results of the Investigation and Control Directorate of the Employment Insurance program and also analyze changes in the cost effectiveness of the investigative methods used. The Directorate is responsible for protecting income benefits payouts, under Part I of the *Employment Insurance Act*, against fraud and abuse. In our follow-up, we found that HRDC is now providing managers with information on the causes of discrepancies between actual and expected results and indicating where corrective action is needed, although the thoroughness of analysis varies. However, HRDC has not assessed the cost effectiveness of each investigative method because it lacks the necessary information on their costs. It has yet to complete other actions cited in its 1997 initial response to this recommendation, namely, a survey of front-line staff and an evaluation study. The evaluation study is now under way, and it is to identify the nature and extent of abuse and misuse of the EI Program. The Department plans to report the evaluation results in 2004.

Information to Parliament

33.67 Little improvement in the annual report of the Canada Pension Plan. In 1997, we recommended that the annual report of the CPP reflect the program's mandate, objectives and strategies. We also said that it should include more future-oriented information and, as soon as available, more complete information comparing performance with expectations. We found that HRDC has made little progress in acting on our recommendation. For example, the 1998-99 annual report contained minimal information about the CPP's mandate, little linking of objectives to strategies, and little comparison of performance with expectations. Further, the report contained little future-oriented information; for example, the impact of the aging population. HRDC is planning to improve the CPP's 1999–2000 annual report.

33.68 No single annual report on the Employment Insurance Account. In 1997, we recommended that HRDC produce a report providing complete, relevant and timely information on the major activities related to the EI Account. The Standing Committee on Public Accounts recommended that the *Employment Insurance Act* be amended to require that HRDC prepare an annual report to the House of Commons on the EI Account. HRDC informed us that information on the Account's activities, results and resource management can be found in its annual departmental performance reports and the reports on plans and priorities. In addition, it indicated that its Web site now provides all relevant information on the EI Account, from various sources. However, the information is fragmented, making it difficult to assess the Account's financial and operational performance. Given the importance of the EI Account, we believe that Parliament would benefit from having all important information available in a single report.

33.69 **Chief Actuary's reports of the EI Account are made public.** In 1997 we noted that the actuarial analyses necessary for setting the premium rate of the Employment Insurance Account were not tabled in Parliament, unlike those of the Canada Pension Plan. Our follow-up found that they are still not tabled in Parliament. However, HRDC informed us that the Chief Actuary's 1998, 1999 and 2000 reports are available on demand and can be accessed on the Department's Web site. We believe that the tabling of the actuarial analyses of the Chief Actuary would contribute to a better understanding of some of the factors used in setting premium rates.

Results-based management

33.70 **The Department's selected key performance indicators have remained relatively stable.** In 1997, we recommended that the selected key performance indicators remain in place long enough for the Department to assess performance over time and that the choice of key indicators takes costs into account. We also reported that HRDC needs to ensure the quality of performance data to increase the credibility of the performance indicators.

33.71 We found that the Department's selected key performance indicators have remained relatively stable over the past three years. However, none of them provide information on costs and efficiency. In its response to the recommendations of the Standing Committee on Public Accounts concerning our 1997 chapter, HRDC had agreed to report additional data to Parliament on cost and efficiency so as to provide for a more comprehensive picture of the Department's performance. In this follow-up, we found that costing methodologies were being piloted in the Employment Insurance program and Income Security Programs to establish the cost of processing applications and claims. We also encourage HRDC to take the necessary steps to enhance the credibility of its performance data.

HRDC's selected key performance indicators have remained relatively stable over the past three years. However, none of them provide information on costs and efficiency.

Revenue Canada and Department of Finance — Understanding Changes in Tax Revenues: GST — 1997, Chapter 32

Assistant Auditor General: Shahid Minto
Principal: Jamie Hood

Background

33.72 Our 1997 chapter explored whether there were opportunities for Revenue Canada (now the Canada Customs and Revenue Agency) and the Department of Finance to improve their analysis of GST revenue movements. Good analysis can increase the government's ability to identify errors, its awareness of new economic trends and the accuracy of its forecasts of tax revenues, surpluses and net borrowing needs; it can thereby also enhance the credibility of the financial information reported to Parliament. Good analysis of revenue movements would also support the Agency's programs and initiatives to identify tax avoidance techniques used by GST registrants and to note changes in registrant compliance. In 1997 we made a number of observations and recommendations for an appropriate analysis process and use of timely and reliable data for analysis.

The Canada Customs and Revenue Agency and the Department of Finance have taken many steps to address our recommendations.

Scope

33.73 Our follow-up consisted of reviewing a status report prepared by the Canada Customs and Revenue Agency and the Department of Finance on the actions taken to address our 1997 recommendations. We also reviewed supporting documentation provided to us by both the Agency and the Department, and we held discussions with officials of both organizations.

Conclusion

33.74 The Canada Customs and Revenue Agency and the Department of Finance have taken many steps to address our recommendations. Progress has been made in re-engineering the GST system and implementing the government's move to accrual accounting, but much still needs to be done.

Observations

Following an appropriate analytical process

33.75 In 1997 we recommended that when analyzing GST revenue movements Revenue Canada and the Department of Finance, as a minimum, adjust for bookkeeping errors and distortions caused in using the cash basis of accounting, and then assess the extent to which further analysis is required. We noted in our follow-up that in preparing the revenue reports used for analysis, the Agency now adjusts for the cash basis of accounting by including in the month under review the receipts from the first two banking days of the following month.

33.76 The analysis of revenue is, of necessity, a combined effort. No one unit has all the expertise and information needed for the task. In 1997 we recommended that Revenue Canada ensure a sufficient, proactive, timely and co-ordinated effort by its various units to analyze GST revenue. In its 1999 guide on revenue analysis, the Canada Customs and Revenue Agency briefly described the roles and responsibilities of its units and those in the Department of Finance that perform the analysis of the revenue streams. In the guide the Agency confirmed its Revenue Accounting and Reporting Division as the focal point to co-ordinate the analysis by identifying variances and requesting explanations from other program branches at the head office. The Agency's guide specifies the thresholds for variances beyond which an explanation is required. These variances and explanations are discussed at the joint Agency/Finance Fiscal Monitor Committee. In addition, information is exchanged outside the formal meeting process.

33.77 Since 1997, there have been a number of improvements in the process used for revenue analysis, including more detailed analysis sheets. However, we noted in our follow-up that the established process is not always followed. Throughout the past year the Division did not receive explanations for all variances that exceeded the thresholds, nor were all the required variances identified for explanation. The Agency informed us that officials exercise judgment in determining variances that need explaining. We believe that revenue analysis could produce more useful and timely information for both organizations if they followed the process more thoroughly.

Having and making appropriate use of reliable and timely data

33.78 Good data are key to analyzing revenue. We recommended in 1997 that Revenue Canada and the Department of Finance continue to work toward improving the reliability and timeliness of the GST data, and make more use of available and reliable data to the extent called for at each step of the analytical process. In this follow-up we noted that the Canada Customs and Revenue Agency is working to re-engineer its various information systems for taxes and duties, starting with the corporate tax system and including a move to standardized accounting. The Agency completed an analysis of the present GST system that identified the operational processes using the GST system, problems in the system and desired enhancements. It is now working on a complex proposal for specific changes to the GST system, but has not set a date for implementation. In the meantime, the Agency has revised its monthly revenue report to include a little more detail from its present system for analysis of GST revenue, and it is working to break down the revenue data in additional ways.

The Agency is working to re-engineer its various information systems for taxes and duties.

33.79 In 1997 we recommended that Revenue Canada find ways to reconcile the net of GST declared and input tax credits claimed with the net of cash receipts and refunds. The Canada Customs and Revenue Agency now prepares on a quarterly basis a high-level comparison between net GST declared and net cash receipts. The Agency considers that a detailed reconciliation is complex and would require system changes. Along with re-engineering its GST system, the Agency is working on a method to record all its revenue, including the GST, on an accrual basis by the fiscal year 2001–02 as part of the government's overall financial information strategy.

The Agency is working on a method to record all its revenue on an accrual basis by 2001–02 as part of the government's strategy.

33.80 In our 1997 chapter, we recommended that if, after improving the reliability and timeliness of the available information and making better use of it, Revenue Canada and the Department of Finance could still not adequately explain GST fluctuations, they consider requesting additional information from some or all registrants. We noted in this follow-up that both the Agency and the Department are in the early stages of a process that could result in their obtaining additional information from GST registrants in general or in specific sectors, such as financial institutions. They will need to maintain a balance between their need for more information for analysis and compliance purposes and the increased burden it places on registrants to provide the information and on the Agency to capture and store it. The organizations have made no decisions yet on what information to request and how that information will be obtained.

33.81 To provide better data for analysis of changes in GST revenue, the organizations have undertaken two long-term projects — re-engineering of the GST system and accrual accounting — and are considering requesting more information from registrants. We urge the organizations to complete these projects as soon as possible to improve the timely analysis of GST revenue.

Revenue Canada — Awarding a Duty Free Shop Licence — 1997, Chapter 36

Assistant Auditor General: Shahid Minto
Principal: Jamie Hood

Background

33.82 In 1997 we reported that Revenue Canada (now the Canada Customs and Revenue Agency) had departed from departmental standards and practices in awarding a duty free shop licence (paragraphs 36.81 to 36.109). We found that the standards and practices used in the award of a particular duty free shop licence differed significantly from those used in other licence awards at land border crossings. For example, there was no national tender call in the award of the initial licence in 1995 or in the new licence issued in 1997. Furthermore, Revenue Canada did not have sufficient information to determine whether the applicants met the qualifications to operate a duty free shop at a land border crossing.

33.83 We were concerned that the precedents set might undermine the transparency and credibility of the process for awarding duty free shop licences. We were also concerned that the licence awards were not consistent with the intent of the Duty Free Shop Regulations that beneficial owners be Canadian citizens or permanent residents.

33.84 The Department responded that the decision to award the licences without recourse to an open tendering process was in full conformity with the law, reflected appropriate judgment in light of the unique circumstances of the case, and in no manner compromised the integrity of the duty free shop program. However, it undertook to award any future duty free shop licence at that site through an open, competitive process. It also undertook to pursue a full review of the Duty Free Shop Regulations, in concert with the Department of Finance, commencing in January 1998.

Scope

33.85 Our follow-up this year consisted of reviewing a status report prepared by the Canada Customs and Revenue Agency on the actions it has taken in response to our audit observation.

Conclusion

33.86 The Office intends to re-examine this matter once the regulatory review is completed.

Observations

33.87 The Agency has informed us that its regulatory review of the duty free shop program is still under way. To date, it has had consultations with key stakeholders about the future of the program, has held information sessions in key centres, and has developed a series of program models for the purpose of comparative analysis.

33.88 The Agency advised us that during the regulatory review, it adopted the practice that all duty free shop licences that expired prior to the completion of the review would be renewed for a maximum one-year term. Therefore, the duty free licence at the land border crossing referred to in our audit observation was renewed for a one-year term that will expire in July 2001. The Agency also advised us that at the end of the one-year extension, it intends to tender the licence unless the results of the regulatory review dictate otherwise or the Minister decides at that time, for other reasons, that a tendering action is not appropriate.

Revenue Canada, Department of Finance and Department of Justice — Interdepartmental Administration of the Income Tax System — 1998, Chapter 5

Assistant Auditor General: Shahid Minto
Principal: Barry Elkin

Background

33.89 In our 1998 audit, we reported that, to prevent possible erosion of the tax base, the Department of Finance (Finance), the Department of Justice (Justice) and Revenue Canada (now the Canada Customs and Revenue Agency) needed to work together more effectively in managing two specific areas — threats to the tax base resulting from the appeals process and those resulting from identified deficiencies in tax legislation. Weaknesses in managing these threats can lead to impacts such as loss of tax revenue and/or loss of confidence in the integrity of the tax system.

Some improvement is required in ensuring that procedures designed to protect the tax base are rigorously and consistently applied.

33.90 We observed that legislative deficiencies were not always corrected on a timely basis. We made a number of recommendations to improve the identification and management of threats to the tax base. These included improving the quantification of amounts at risk, increasing the transparency of settlement agreements, reaching more timely settlement of disputes, and planning better for the use of Justice litigation services.

Scope

33.91 Our observations here are based on interviews and a review of documents provided to us, including the status reports presented by Finance, Justice and the Canada Customs and Revenue Agency on progress in implementing our 1998 recommendations.

Conclusion

33.92 A fundamental structure has been put in place for managing risk to the tax base when dealing with the appeals process. The key elements of this structure include early identification and monitoring of high-risk cases; transparency in settlement agreements; a joint process for ensuring adequate resources for litigation; and consultation to prioritize legislative deficiencies for corrective action. Action has been taken on the majority of our recommendations that deal with these key elements. Some improvement is required in ensuring that procedures designed to protect the tax base are rigorously and consistently applied.

Observations

Determining amounts at risk

33.93 The Canada Customs and Revenue Agency has put in place a process to identify and track high-risk cases, from the notice of objection by the taxpayer through litigation of the case. A case may be classified a high risk because of the amount it involves, or because it challenges important principles of law, tax administration or social programs. A case may also be a high risk when its outcome has a potential impact on other taxpayers with similar issues. High-risk cases are tracked on either an "important issues list" or a "groups list", prepared by Agency headquarters with input from appeals officers in the field. These lists are reviewed by a senior interdepartmental Risk Management Committee, to assess the risk to the Agency and ensure that appropriate action is taken.

33.94 The amount involved is a major factor in determining whether a case is high risk. In 1998 we noted that appeals officers did not have a clear understanding of how to determine tax at risk. Headquarters has since issued a directive to all appeals officers on how to calculate taxes and interest in dispute and their potential impact on the tax base. However, a post-implementation review of that directive revealed problems in its application. They included difficulties in determining how many related cases existed in the field and the extensive time appeals officers had to spend on complex calculations to determine the amounts involved. An Agency working group will address these concerns in the fall of 2000.

Transparency in settlements

33.95 In 1998 we noted that a settlement is reached in 34 percent of the appeals that proceed to the Tax Court of Canada. Our audit raised concerns about the transparency of these settlements. We observed that Justice prepared written reasons for larger settlements involving more than $12,000 in federal tax. However, it did not always do so for settlements below $12,000. We recommended that Justice complete a reporting letter for all settlements. This was discussed at a Justice regional and headquarters management meeting in May 1998. It was agreed that a brief reporting letter would be prepared for all settlements under $12,000, and that managers would communicate this requirement to their staff. Justice has not yet updated its standards of service to reflect the need to prepare a reporting letter for all settlements it proposes to the Canada Customs and Revenue Agency.

Reaching agreement earlier

33.96 In 1998 we found that the principal reason for reaching settlements was the provision of new information by the taxpayer. As each step in the dispute resolution process took additional time and effort from Revenue Canada and the Department of Justice, we recommended that Revenue Canada promote earlier disclosure of information by taxpayers. In response to that recommendation, the Canada Customs and Revenue Agency is piloting an "enhanced acknowledgement letter," to be sent to the taxpayer within 30 days after an objection is filed. In the letter, the appeals officer requests specific documents and information to help support the taxpayer's position, where appropriate. It is hoped that this will expedite a dialogue with the taxpayer about the objection. At the time of our follow-up, the enhanced acknowledgement letter was being used at 12 pilot locations and expansion of its use to all appeals locations was expected by December 2000.

33.97 In 1998 Revenue Canada was considering techniques of alternative dispute resolution (ADR) to facilitate earlier resolution of taxpayer disputes. ADR normally allows the use of mediation, negotiation or arbitration to settle disputes. We expressed concern that without appropriate transparency safeguards, there could be increased risk of compromise solutions that were inconsistent with the law. The Canada Customs and Revenue Agency has acted on our concerns and is proceeding with mediation at the objection stage in one pilot location only. It plans to assess the effectiveness of this technique before proceeding further.

Improving the administration of the dispute resolution process

33.98 In 1998 we made several recommendations to facilitate the administration of the dispute resolution process. We recommended that Justice and Revenue Canada plan better for the use of Justice litigation services. Since that time, a computerized case management and resource-tracking system called Caseview has been implemented in

The amount involved is a major factor in determining whether a case is high risk.

The Department of Justice has not yet updated its standards of service.

all Justice tax litigation offices. The Caseview reports are used in a national planning exercise to review the use of litigation resources and project resource needs for the coming year. This exercise includes consultation with the Appeals Branch of the Canada Customs and Revenue Agency. In addition, Justice is developing a protocol for managing large cases that involve a team of lawyers. This should strengthen planning and ensure that funds are available for major litigation.

Transferring relevant opinions to the Department of Justice intranet site has been hindered by security concerns.

33.99 We noted in 1998 that Justice lawyers located in tax litigation offices did not have access to the database of legal opinions maintained by Justice Legal Services at Revenue Canada headquarters. We said that access to those opinions would improve efficiency and consistency in preparing for litigation. Justice has since informed us that the confidential and sensitive nature of the information would make it too costly or inefficient to develop a secure common link between it and the Agency. It has explored an alternative, which would involve transferring relevant opinions to the Justice intranet site. This option has also been hindered by security concerns. Management has stated that it is a priority to obtain the necessary security to make the intranet a viable tool for sharing legal opinions and other sensitive information.

33.100 We observed in 1998 that there were often delays at Revenue Canada in deciding whether to pursue appeals filed to the Federal Court of Appeal from adverse decisions by the Tax Court of Canada. We noted that the final decision to proceed with the appeal had to be made by the Policy and Legislation Technical Sub-Committee. In response to our observation, the Sub-Committee has been meeting more often. When a particular case cannot be discussed at one of the meetings, documents are circulated and members asked to provide their views.

Prioritizing legislative deficiencies for corrective action

33.101 In 1998 we noted cases where Finance, in the face of significant risk to the tax base, had moved quickly to introduce legislative change. We noted other situations where Finance had been slow to act. We recommended that it regularly consult the interdepartmental committee of assistant deputy ministers for advice on which deficiencies should be given priority for corrective action.

33.102 Since 1998, the interdepartmental committee that represents the Agency, Justice and Finance has met regularly to discuss legislative priorities. For example, the committee was instrumental in recommending the inclusion of third party penalties in the 1999 Budget and harassment protection for Agency collectors in the 2000 Budget, among other items. These were high-priority issues for the Agency.

33.103 The committee also plays a supervisory role in directing priorities for technical changes, supplemented by meetings at the working level. The work in this regard has led Finance to release a package of draft technical amendments in November 1999; a motion to implement them was tabled in the House of Commons on 5 June 2000.

33.104 In 1998 we noted a number of constraints to proposing legislative change, such as the overburdened agenda of Parliament, the need to consult with stakeholders, and limits on the volume of legislative change that can be absorbed by taxpayers and tax practitioners. Given these constraints, it is important that current procedures be maintained to secure the views of the Agency and Justice on prioritizing legislative deficiencies for corrective action.

Population Aging and Information for Parliament: Understanding the Choices — 1998, Chapter 6

Assistant Auditor General: John Wiersema
Director: Basil Zafiriou

Background

33.105 Canada's population is aging. The proportion of the total population who are elderly will grow sharply during the second and third decades of this century, as successive waves of baby boomers reach age 65. By the year 2030, Canada's elderly will represent 22 percent of the total population, compared with just over 12 percent at present. Today, for every Canadian 65 years or older, there are five of working age; in three decades, there will be half as many.

33.106 This demographic shift, a product of the high fertility of the early postwar years and the rising life expectancy of Canadians, has far-reaching implications for our economy and our public finances. In particular, an aging population implies increasing pressures on government spending, stemming from higher pension payments and increased demands for health care services. At the same time, given existing employment patterns, the growth of the labour force will slow to a crawl, reducing the rate of economic growth and hence the rate of growth in government revenues as well. Together, these forces can put enormous pressures on government finances when their impact begins to be felt in 10 years or so, particularly if our debt burden and tax levels remain high.

33.107 Chapter 6 of our 1998 Report sought to illustrate the fiscal implications of the impending demographic shift and to draw attention to the need for a long-term perspective on budget planning. We contended that the government ought to produce long-term financial projections to help parliamentarians and the public gain a better appreciation of the fiscal challenges looming ahead. We pointed out that several other advanced countries are already doing this.

Scope

33.108 For this follow-up, we reviewed recent Budget documents, the fall fiscal update of the Minister of Finance over the past three years, and analyses and studies of demographic issues prepared by the Department of Finance.

Conclusion

33.109 The government's budgetary process has become more forward-looking since we reported in 1998. The Budget planning framework remains at two years. But in its fall fiscal update, the Department of Finance now provides five-year forecasts of revenues and expenditures, based on an average of private sector forecasts. Extending the fiscal outlook from two years to five is an important step in the right direction, but still falls short of what is needed to show the impact of the impending demographic shift one to three decades ahead.

Extending the fiscal outlook from two years to five is an important step, but still falls short of what is needed to show the impact of the demographic shift one to three decades ahead.

Observations

The Standing Committee on Public Accounts endorsed the need to report information on the fiscal implications of population aging

33.110 The House of Commons Standing Committee on Public Accounts held hearings on our 1998 chapter in June 1998; the Auditor General and the Deputy Minister of Finance appeared as witnesses. In a report tabled on 8 October 1998, the Committee stressed the importance of taking demographic trends into account in budget planning, and called on the Department of Finance to devise appropriate means for the government to "disseminate long-term demographic and fiscal information that would ensure transparency and greater understanding of the issue."

33.111 In its response to the Committee, the Department of Finance noted that the government's two-year rolling budget plans had been effective in lowering the debt-to-GDP ratio, and argued that long-term projections could undermine "the importance and urgency of addressing immediate problems." However, the Department did leave the door open for such projections at some later date, once the government had accumulated more annual surpluses and there was less political and media focus on short-term targets.

Budget decisions continue to be made within a two-year planning horizon, but the longer fiscal outlook now provides additional context for viewing and assessing the government's targets.

The budgetary process has become more transparent and forward looking

33.112 The government's approach to budget planning has been to set two-year rolling fiscal targets and to balance the budget or maintain a small surplus, so that the debt-to-GDP ratio will remain on a permanent downward track. With the *Economic Statement* released last October, the Minister of Finance introduced a new element in the government's Debt Repayment Plan. From now on, the Minister said, each fall the government will announce whether more of that year's surplus should be used for debt repayment, depending on the circumstances at that time.

33.113 To ensure that its budget targets are met, the government sets aside a $3 billion "contingency reserve" to cushion against unforeseen developments. The targets also contain an additional "prudence" factor to allow for the risk of higher-than-expected interest rates or lower economic growth. In the past, this prudence was embedded in the Budget forecasts; that is, the projected revenues were lower and expenditures higher by the amount of the prudence factor. Beginning with the *Economic and Fiscal Update* of November 1999, this extra prudence is shown explicitly in the Budget forecasts.

33.114 Also for the first time, the 1999 *Economic and Fiscal Update* provided five-year forecasts of government revenues and expenditures, based on an average of private sector forecasts. Budget decisions continue to be made within a two-year planning horizon, but the longer fiscal outlook now provides additional context for viewing and assessing the government's targets. Nevertheless, five-year projections confine the fiscal outlook to a period when the demographics remain favourable. They do not capture the effect of the sharp increases in the elderly population that will occur during the second and third decades of this century.

Canada's fiscal condition has improved, but the need for information on the long term remains

33.115 Canada experienced a remarkable turnaround in its fiscal condition over the past three years. After nearly three decades of continuous deficits and mounting debts, the government recorded small surpluses in 1997–98 and 1998–99, and a much larger surplus — $12.3 billion — last year. Additional surpluses are projected over the next several years as well.

33.116 The improved fiscal condition strengthens our ability to establish structures that can withstand the demographic pressures looming ahead. This requires information on how serious those pressures are. The Department of Finance has been conducting extensive research on demographic trends and analyzing their economic and fiscal implications. It reports the results of that work in departmental publications and at various professional meetings attended by Finance officials. This work is not easily accessible to non-specialists, however. Thus, there is still a need for the government to translate this technical work into clear long-term projections of Canada's fiscal prospects and to report them to Parliament, either as part of the annual budget presentation or during pre-budget consultations in the fall.

Federal Laboratories for Human and Animal Health Building Project — 1998, Chapter 7 and Canadian Security Intelligence Service — National Headquarters Building Project — 1996, Chapter 8

Assistant Auditor General: David Rattray
Principal: Hugh McRoberts

Background

33.117 In April 1998, we reported to Parliament on the Federal Laboratories for Human and Animal Health Building Project located in Winnipeg, Manitoba, now called the Canadian Science Centre for Human and Animal Health (CSCHAH). In May 1996, we reported to Parliament on the National Headquarters Building Project of the Canadian Security Intelligence Service located in Ottawa, Ontario. Overall, both audits concluded that the projects were successfully implemented. However, stronger management and control practices would have reduced costs to the Crown. The facilities also contained space exceeding program requirements. In summary, our observations and recommendations were aimed at addressing several key issues. These included:

- ensuring that surplus space capacity in both facilities is fully utilized;
- strengthening the roles and reporting relationship of the Biosafety Offices in Health Canada and the Canadian Food Inspection Agency;
- strengthening the Treasury Board Secretariat's project monitoring role; and
- strengthening certain management, control and contracting practices of Public Works and Government Services Canada for planning and delivering future major Crown projects.

33.118 On 4 June 1998, the Standing Committee on Public Accounts held a hearing on the results of the audit of the Canadian Science Centre for Human and Animal Health, and a report was tabled in the House of Commons on 21 October 1998. The report reaffirmed the audit recommendations and stressed the need for all departments and agencies to do everything in their power to rectify the problems and deficiencies noted in our 1998 Report. The Public Accounts Committee also requested that Health Canada prepare a plan to address the issue of space utilization at the Winnipeg facility and urged the Auditor General to review the plan. On 18 March 1999, the Minister of Health tabled a government response to the seventeenth report of the Standing Committee on Public Accounts. On 28 April 1999, the Deputy Minister of Health Canada provided the Public Accounts Committee with a copy of the "Overview of the Health Canada Winnipeg Laboratories Plan", together with the Auditor General's comments thereon.

Scope

33.119 This follow-up is largely based on discussions with departmental, agency and Treasury Board officials on progress since the audits, written assertions they have made in this regard and a review of supporting documentation. Our work also included visits to both facilities as well as to Health Canada's other laboratory facility in Winnipeg.

Conclusion

The departments and agencies concerned have taken action on most of the audit recommendations and observations.

33.120 The departments and agencies concerned have taken action on most of the audit recommendations and observations. However, several important issues remain that need to be addressed more rigorously by senior management. First, there is the question of optimizing the use of laboratory space in Winnipeg. While there has been a significant increase in the approved number of positions at the Canadian Science Centre for Human and Animal Health compared with the number of staff originally planned, many key scientific and management positions remain unstaffed. Furthermore, since our audit, there has been a high turnover of the facility's key program management personnel. At the time of our field work, senior laboratory officials estimated that more than 50 percent of the Centre's potential was not being realized. We also noted that Health Canada is using only 30 percent of available laboratory space at its other facility in Winnipeg.

Several important issues remain that need to be addressed more rigorously by senior management.

33.121 At the time of our field work, the Treasury Board Secretariat considered that the level of project monitoring it was performing for major Crown projects was appropriate. The Secretariat maintained that it provided Treasury Board ministers with reasonable assurance that departmental submissions and progress reports comply with policy in all material respects. Both audits, however, identified significant deficiencies in the completeness and accuracy of information submitted for project and funding approval by the Treasury Board. The Treasury Board Secretariat has recently informed us that it is currently reviewing its monitoring role and methodology to ensure an appropriate level of oversight.

33.122 Over the last two years, Public Works and Government Services Canada has initiated several strategies to improve project delivery. However, we are concerned that the Department has not yet resolved the long-standing issue of clearly defining what constitutes "design errors and omissions", assigning responsibilities for managing each, and incorporating them in project contracts. The Department also needs to intensify its efforts to introduce meaningful incentives in contractual agreements for reducing project costs or, at the very least, introduce measures that will remove disincentives to cost reduction.

Observations

Excess capacity

33.123 Winnipeg laboratories. In April 1998, we reported that the constructed space in the Canadian Science Centre for Human and Animal Health Building exceeded approval and requirements, with no strategy to optimize use. We noted that about 70 positions remained to be filled, comprising 40 percent of the staff that the client departments had originally planned for the facility. We recommended that the departments conduct a space utilization study of the new facility to determine how much surplus space was available and develop a comprehensive business plan and strategy to ensure that its capacity would be fully used. We also reported that Health Canada had another laboratory facility in Winnipeg that was built in 1987 at a cost of about $12 million. We noted that the facility included a chemical containment laboratory that had never been commissioned or operated.

33.124 Health Canada and the Canadian Food Inspection Agency have informed us that a space utilization study has been initiated. The development of a comprehensive business plan for the CSCHAH facility was also in the conceptual planning phase; however, it has been delayed and placed on hold while Health Canada completes its realignment and transformation exercise that is expected to be completed by spring 2001.

33.125 Since our 1998 Report, we noted that several new Health Canada programs have emerged, such as the Blood and Food Safety initiative. Other options are being considered that could generate new space requirements for the Winnipeg laboratories. As at 20 June 2000, Health Canada officials in Winnipeg had identified an urgent need for 182 positions, which represents an increase of about 50 percent compared with the number of staff Health Canada had originally planned for the facility. We noted, however, that 56 positions had not been staffed. Staffing actions were under way for 42 positions while 14 positions were on hold pending availability of funding and senior management's approval. We also noted that the Bureau of Microbiology has been without a permanent Director since October 1999, and there have been many vacant positions in key scientific programs. The Department informed us that a permanent Director for the Bureau of Microbiology has been hired effective October 2000, at which time extensive planning of program development and assessment of space utilization will be given a high priority.

33.126 The other laboratory facility in Winnipeg is a two-storey building comprising a total gross area of over 5,900 square metres. The facility was completed in October 1987 with annual operating costs of about $450,000. Health Canada informed us that the building is a multi-purpose facility. The office part of the building is currently used at 60 percent capacity and the chemical laboratory part of the building is being used at 30 percent capacity. According to Health Canada officials, the unused capacity of this laboratory has been and continues to be reviewed as part of the overall study of regional and program laboratory needs. Progress on completing this study has been complicated by the continuing discussions on the transfer of the regional laboratories in Dartmouth, Nova Scotia and Burnaby, British Columbia to the Canadian Food Inspection Agency.

33.127 Level 4 laboratories. On 28 April 2000, the ministers of Health and Agriculture and Agri-Food announced jointly that the Canadian Science Centre for Human and Animal Health received the clearances necessary to begin work on a number of critical, highly infectious diseases. At the time of our field work, Health Canada had begun its level 4 program that studies some of the most deadly viruses known. Health Canada has two research scientists and a senior technician trained in working with level 4 viruses. The Department hopes to hire two additional research scientists and another highly skilled technician by the end of the year.

Health Canada has begun its level 4 program that studies some of the most deadly viruses known.

33.128 The Canadian Food Inspection Agency plans to develop a level 4 program using a phased-in approach following the initial experience with level 4 operations in Health Canada. However, the Agency plans to use its level 4 laboratory only as needed, subject to the Animal Health program requirements.

33.129 Canadian Security Intelligence Service (CSIS) building. In May 1996, we reported that since the start of construction, CSIS had been subject to government budget cuts and staff reductions that resulted in underutilized office space. In the latter part of 1996, CSIS completed a space utilization survey of the national headquarters complex that resulted in better use of areas within the building. Since then, increased staffing for new operational initiatives and requirements to satisfy new technologically driven needs have consumed all the spare office capacity. At the time of our field work, the number of people working in the building exceeded design occupancy detailed in CSIS accommodation documents.

33.130 CSIS is currently studying alternatives to provide additional office accommodation within its national headquarters building.

Laboratory safety functions

33.131 In April 1998, we reported that the roles and responsibilities of Health Canada's Office of Biosafety and the Biohazard Containment and Safety Unit in the Canadian Food Inspection Agency needed to be strengthened. We recommended that these offices needed to be independent of program managers in order to minimize any real or perceived conflict of interest. We also suggested that these offices systematically review all laboratories dealing with infectious agents and formally attest that the relevant biosafety guidelines are being followed.

33.132 Since the audit, the independence of the safety offices has been strengthened and further action is planned. Health Canada's Office of Biosafety now reports to the Executive Director of the Emergency Services Centre within the new Population and Public Health Branch. The Biohazard Containment and Safety Unit of the Canadian Food Inspection Agency now reports directly to the Executive Director, Laboratories Directorate. Plans are also under way to strengthen the Office of Safety and Environmental Services in CSCHAH by hiring two additional experts in containment safety.

33.133 Health Canada informed us that it is pursuing the issue of strengthening the overall system of certifying and monitoring laboratories that deal with infectious agents. This is being done in conjunction with the movement of the Human Pathogens Importation Regulations (HPIR) to the new *Canada Health Protection Act*. It is anticipated that the new Act, together with changes to the HPIR, will better articulate the responsibility to formally attest that all laboratories handling infectious agents are following relevant biosafety guidelines. A memorandum of understanding is also being developed with the Biohazard Containment and Safety Unit of the Canadian Food Inspection Agency to clarify and define the respective roles for the control of pathogens affecting both humans and animals. These initiatives are expected to be completed sometime in 2001.

Treasury Board Secretariat

33.134 The Treasury Board Secretariat states that its primary role in the planning and implementation of capital projects is to provide a high-level strategic policy framework within which departments and agencies are responsible and accountable for results. The Secretariat asserts that it has been monitoring departmental compliance with the intent and the specifics of the relevant policy through the review of project approval submissions and project progress reports. The Secretariat maintains that it provides Treasury Board ministers with reasonable assurance that departmental submissions and progress reports comply with policy in all material respects. At the time of our field work, it considered that the level of project monitoring was appropriate, given available resources and that significantly increasing monitoring levels would be neither cost-effective nor affordable.

We believe that the Treasury Board Secretariat needs to be more proactive and systematic as it reviews project submissions and as projects are ongoing.

33.135 We agree with the Treasury Board Secretariat that its roles and responsibilities should complement rather than duplicate work done by departments; they should focus on providing broad direction and leadership in government, rather than dealing with transactional matters. We also concur that departments are ultimately responsible and accountable for results. However, our audits identified several material instances of departmental non-compliance with policy, which the Secretariat did not detect. We believe that the Secretariat needs to be more proactive and systematic as it reviews project submissions and as projects are ongoing. In our opinion, the strength of the Secretariat's monitoring role should depend on the circumstances. A few critical variables could determine the extent to which the Secretariat should play a stronger role. These might include, for example, public safety, cost, level of risk, degree of political sensitivity, and degree of change/innovation.

33.136 In summary, we believe that the Treasury Board Secretariat has a real role in expenditure management relating to major Crown projects. There are many activities it can undertake that would not duplicate work already done by departments and that would support its own overall responsibilities. We reaffirm our belief that the Secretariat needs to strengthen its monitoring role so that it can indeed provide ministers with reasonable assurance that departmental submissions comply with policy. A stronger, more involved role by the Secretariat in future major Crown projects would help prevent many of the problems identified in our past audits of Crown projects. The Treasury Board Secretariat has recently informed us that it is currently reviewing its monitoring role and methodology to ensure an appropriate level of oversight.

Project management

33.137 The 1996 and 1998 audits contained several recommendations aimed at strengthening the way that Public Works and Government Services Canada manages and controls Crown projects. For example, we recommended that the Department tailor consultant contracts to specific projects and that it improve its monitoring of contractor performance. We also recommended that the Department clarify the definition and responsibility for design errors and omissions and that it revise its contracting practices to provide incentives for cost savings within approved budgets but without compromising project objectives.

33.138 Since our audits, the Department has initiated several strategies to improve project delivery. For example, it has developed a National Standard template for contracts and requests for proposals to ensure a consistent approach to requests for proposals and contracts. The template captures specific requirements and expectations at the beginning of the project so that deliverables are clear and precise and costed accordingly. The Department has also formalized a Procurement and Risk Management process to identify potential risks and contract allowances prior to seeking contract approval on both consultant and construction contracts. The process encompasses reviewing the upcoming project, identifying potential risk areas, preparing a risk response and identifying the potential impact on the project from both a monetary and delivery perspective. Formal training has been provided to staff involved in this process and is ongoing on a national basis. A Change Order Centre and a Claims Prevention Management group have also been established to assist project managers with project issues, including claims and disputes.

33.139 The Department has informed us that it has had some discussions with the consultant industry and their insurance companies on clearly defining what constitutes design errors and omissions and introducing meaningful incentives for reducing costs where feasible. The insurance companies have committed to provide a definition of errors and omissions that would open discussions on including this definition in the contract documents of Public Works and Government Services Canada. However, a time frame has not been established for these potential discussions. The consultant industry does not agree that incentives can be introduced in a meaningful way without compromising project objectives. In early 1999, the Deputy Minister of Public Works and Government Services suggested that the issue be investigated further to identify a solution that would be agreeable to all parties.

Public Works and Government Services Canada has initiated several strategies to improve project delivery.

Promoting Integrity in Revenue Canada — 1998, Chapter 15

Assistant Auditor General: Shahid Minto
Principal: Jamie Hood

Background

33.140 The success of Revenue Canada's (now the Canada Customs and Revenue Agency) tax, transfer payment, customs and trade administration functions depends primarily on the voluntary compliance with the applicable laws by individuals and businesses. One of the many factors affecting the likelihood of voluntary compliance is the way individuals and businesses perceive the conduct of Revenue Canada's staff. An organization like Revenue Canada, with its decentralized operations and the extensive exercise of judgment by employees, must take adequate precautions to minimize the risk of employee misconduct.

33.141 In Chapter 15 of our 1998 Report, we looked at various means that the Department employed to promote integrity among its employees. We found that Revenue Canada had the foundation for the promotion of integrity, but there were areas for improvement that would help it to reinforce and build on that sound foundation. We made a number of observations and recommendations about training, corrective action, information for staff, the application of discipline, monitoring of staff knowledge of expected conduct, and creation of a position of ethics advisor.

The Canada Customs and Revenue Agency is making good progress, however, few recommendations are fully implemented.

Scope

33.142 Our follow-up consisted of reviewing the status report prepared by the Canada Customs and Revenue Agency on its progress on our recommendations, reviewing supporting documentation and holding discussions with its officials.

Conclusion

33.143 The Agency is making good progress; however, to date, few recommendations are fully implemented. The Agency is improving information to staff, taking a more preventive approach to misconduct and establishing monitoring programs in areas more vulnerable to misconduct. The security handbook was revised in April 1999 and is now available electronically to staff ; the Code of Ethics and Conduct and discipline policy were revised in September 2000. The Agency plans to issue a single reference document on ethical behaviour with the revised Code of Ethics and Conduct. An orientation manual, available electronically to all employees, also addresses the issue of conduct. In addition, the Agency is in the process of reviewing the role of an ethics advisor. Further, it is planning to monitor disciplinary sanctions and to develop a system to monitor staff knowledge of expected conduct.

Observations

Application of discipline

33.144 To obtain the maximum deterrent effect, it is necessary that disciplinary action be applied fairly and consistently and in a timely manner. In 1998, the departmental guidelines on discipline dated from before the 1994 administrative consolidation of Revenue Canada. A consolidated discipline policy was distributed effective with the creation of the Canada Customs and Revenue Agency in November 1999. This policy was recently revised.

33.145 At the time of our 1998 audit, Revenue Canada was planning to capture information on all disciplinary actions, analyze it and report on it to senior management. As the first step in this process, the revised discipline policy requires that a copy of each notice of disciplinary action be sent to Corporate Staff Relations and Compensation. At the time of our follow-up, the Agency had not started capturing or analyzing the data.

33.146 During our 1998 audit, we found that in 45 percent of the cases we reviewed with no grievances, final disciplinary action was imposed more than 30 days after completion of the investigation of misconduct. We recommended that Revenue Canada study the disciplinary process to increase the proportion of cases in which the final discipline is imposed within 30 days of completing the investigation. The 2000 revised discipline policy states that it is imperative that the delegated manager take timely disciplinary action and make every reasonable effort to render disciplinary action within 30 working days of the conclusion of the investigation. The Agency is planning to monitor disciplinary sanctions and analyze the factors that inhibit the timely imposition of discipline. It plans to eliminate, where possible, practices that prevent the speedy imposition of disciplinary sanctions.

Taking corrective action

33.147 In addition to taking disciplinary action for misconduct, it is often necessary to correct weaknesses in security, procedures or training. In 1998 we found that while management's responses to rectify observed weaknesses were for the most part appropriate, at times the responses were very slow and narrowly focussed. We recommended that for those incidents that have significant national implications, Revenue Canada ensure that remedial action is applied to all organizational units that are at risk.

33.148 In this follow-up, we noted that the Agency is becoming more proactive in detecting and preventing misconduct. Investigation reports on misconduct include a section on procedural deficiencies and are sent to the applicable head office functional area for their information and action. In addition, as a result of trend analysis, senior management has given security officials the mandate to monitor the use of electronic networks and to establish a fraud detection program.

The Agency is becoming more proactive in detecting and preventing misconduct.

Information for staff

33.149 Information is important not only in permitting the Agency to correct systemic weaknesses but also in conveying the Agency's expectations to individual employees. In 1998 Revenue Canada was updating the standards of conduct and security booklets. The security booklet was revised in April 1999 and is available electronically. At the time of our follow-up, the standards of conduct booklet, now the Code of Ethics and Conduct, had been revised. The revised code links expected conduct with corporate values using plain language. It provides reasons for and situational examples of expected behaviour.

33.150 We recommended in 1998 that Revenue Canada provide information on values and conduct to its employees in the form of a brief, easy-to-understand overview ethics document. The Agency plans to issue a single reference document with the revised Code of Ethics and Conduct.

The revised Code of Ethics and Conduct links expected conduct with corporate values using plain language.

Ethics training

33.151 Providing written information is not a sufficient strategy on its own to ensure that employees understand what is expected of them. This strategy needs to be supplemented by training. During our 1998 audit, we found that most employees interviewed had received some formal training on ethics; however, the training coverage was uneven and was conducted on a program-by-program basis. We recommended that Revenue Canada ensure that all new employees are given uniform training on departmental values and standards of conduct and that veteran employees are given uniform refresher training at appropriate intervals on departmental values and standards of conduct.

33.152 In this follow-up, we noted that the Canada Customs and Revenue Agency has implemented an electronic self-study orientation manual for all employees. This manual has also been used in formal orientation programs. The manual contains information on the mission, vision and core values of the organization as well as employee responsibility and conduct. The Agency has also developed the learning framework for a multi-year leadership program planned for experienced and newly appointed managers. This program will focus on leadership consistent with the core values of the Agency and of the Public Service.

33.153 Following the distribution of the revised Code of Ethics and Conduct, managers will be required to conduct employee awareness sessions, at which staff will be able to discuss the policy and their responsibilities.

The Agency is still studying the merits of creating the position of ethics advisor.

Monitoring staff knowledge of expected conduct

33.154 Providing information and training to employees does not guarantee that they will understand and do what is expected of them. During our 1998 audit, we found that Revenue Canada had taken few steps to determine the level of employees' understanding of the standards of conduct. We recommended that Revenue Canada monitor employee knowledge of the Department's expectations for conduct, through the use of staff surveys or other suitable means.

33.155 Following the distribution of the revised Code of Ethics and Conduct and discipline policy, the Agency plans to develop a process to assess employee knowledge of Agency expectations. However, at the time of our follow-up, the Agency had not yet started to develop this process.

Reporting incidents of misconduct

33.156 There are two reasons why employees may not report incidents of misconduct. First, they may lack information on what and to whom to report; second, their working environment may not be supportive of such reporting — especially if their supervisor or other higher-level co-worker were exhibiting the inappropriate behaviour. The revised Code of Ethics and Conduct emphasizes that if employees have any doubts on what and to whom to report, they are to seek guidance from their manager.

33.157 In 1998 we recommended that Revenue Canada study the merits of creating the position of ethics advisor, whom all departmental employees could consult on questions of values and conduct. At the time of our follow-up, the Agency was still working on this study.

Management of the Social Insurance Number — 1998, Chapter 16

Assistant Auditor General: Maria Barrados
Principal: Theresa Duk

Background

33.158 In our 1998 audit of the management of the Social Insurance Number (SIN), we made a number of observations and recommendations. They focussed on the importance of the SIN, processing and control of the SIN, integrity of data in the Social Insurance Register (SIR), investigations of fraud and abuse related to the SIN, impacts on other users, and the legal and policy framework for managing the SIN.

Scope

33.159 Our follow-up examined reports by Human Resources Development Canada (HRDC) on its progress in implementing our recommendations. Also, we discussed with HRDC officials action plans for upcoming initiatives.

Conclusion

33.160 After our 1998 audit, the government took several measures to improve the management of the SIN. HRDC improved the integrity of the SIR by adding new information about deaths and flagging inactive SINs. It also increased the number and quality of SIN investigations. These measures were implemented within HRDC's current operational framework. Other measures planned will further improve the integrity of the SIR and inform Canadians about the purpose of the SIN and how it is to be used. HRDC is planning to request additional funding for these last measures. All these measures, both implemented and planned, fall within the current legal and policy framework for managing the SIN.

33.161 Our follow-up reports on progress made to date. It also indicates the issues we believe will require the most government attention to complete implementing our recommendations.

33.162 The management of the SIN is an important public issue that has attracted the attention of two parliamentary standing committees. Given that the government has not yet implemented all of our 1998 recommendations, we believe that a second follow-up is necessary.

Observations

Much work has been done since our 1998 audit

33.163 In response to our 1998 audit, the government, under the leadership of HRDC, developed an action plan and set up five working groups to study the implementation of our recommendations. Also, the Standing Committee on Public Accounts and the Standing Committee on Human Resources Development and the Status of Persons with Disabilities held several hearings to examine issues from our audit and tabled their reports. In June and December 1999, the government responded to those reports.

Human Resources Development Canada reports that it improved the integrity of data in the Social Insurance Register by comparing it with Canada Pension Plan and Old Age Security databases.

HRDC took steps to improve the integrity of the Social Insurance Register

33.164 HRDC reports that it improved the integrity of data in the SIR by comparing it with Canada Pension Plan and Old Age Security databases. This process validated the identities, deactivated the files and recorded the deaths of a number of SIN holders. According to the Department, some 5.4 million SINs were updated. Also, HRDC also reports that it put in place mechanisms to update SIR data regularly.

33.165 Departmental efforts have already improved the reliability of the SIR. HRDC reports that nearly 3 million SINs have been marked "inactive" or "deceased". The gap of 3.8 million that existed in 1998, between the number of active SINs and the number of people aged 20 or over, has been reduced to approximately 800,000. The Department also reports that the number of active SINs held by people aged 100 or over has dropped from 311,000 to 8,000. In 275,000 other cases, the birth date of the SIN holder has been corrected.

HRDC has increased the number of investigations of SIN fraud and abuse

33.166 HRDC developed an action plan containing four initiatives to deter SIN fraud and abuse:

- develop new fraud prevention and detection programs;
- improve the integrity of data in the SIR by investigating possible fraud and abuse;
- introduce measures to increase the number and improve the quality of SIN investigations; and
- improve communication with federal departments and agencies, other levels of government and the private sector.

33.167 The Department has begun to implement this action plan but has indicated its needs for additional resources. For the moment, HRDC reports that a new investigation unit dedicated to the SIN has tripled the number of SIN investigations over last year. HRDC is also pursuing discussions with Treasury Board to redefine its performance indicators in this area.

Other initiatives are under way

33.168 Other initiatives are under way in response to our 1998 audit recommendations. For example, HRDC is consulting with provincial and territorial agencies to obtain information on births, deaths and name changes more easily. This would make it possible to validate the information needed to issue a SIN, and prevent entering false data into the SIR. Also, the Department is developing a way to better control the risks associated with issuing temporary SINs. Finally HRDC, in cooperation with its partners, is preparing an education campaign aimed at SIN holders and users. HRDC states that the completion of these initiatives depends on additional resources being obtained.

A comprehensive study on the impact and extent of use of the SIN is needed

33.169 In 1998, we recommended that the government assess the impact and extent of use of the SIN. To date, HRDC, Industry Canada and Statistics Canada have held consultations on how to best measure the impact and extent of public and private sector use of the SIN. Their results are to be published in the fall of 2000. In our view, the departments need to complete a comprehensive study and publish the results as soon as possible.

Roles, objectives and use of the SIN

33.170 In its fourth report, the Standing Committee on Human Resources Development and the Status of Persons with Disabilities recommended creating legislation to regulate the use of the SIN. Also, it asked HRDC to prepare a report on options to improve or replace the SIN system.

33.171 In December 1999, the government provided the Committee with a report that set out three options:

- improve the management of the SIN within the current legal and policy framework;
- enact legislation that restricts the use of the SIN; and
- create a national identification system.

After briefly analysing the options, the government concluded that by adopting administrative improvements and enforcing the *Personal Information Protection and Electronic Documents Act*, its present policy was still valid. It also rejected the option of creating legislation to restrict the use of the SIN.

33.172 Since our 1998 audit, much has been said and written about the management and future of the SIN. However, we believe that only the results from the study on impact and use of the SIN, when published, (see paragraph 33.169) will provide essential information to help government and parliamentarians make sound decisions about the future of the SIN, the advisability of restricting its use, data matching and privacy protection. We believe that a more in-depth analysis of SIN options is needed. It would help parliamentarians to fully understand the practical, economic, and political implications of different options. Such an analysis would provide parliamentarians with the information to determine the stakes, as well as the advantages and disadvantages of each option.

We believe that a more in-depth analysis of SIN options is needed to help parliamentarians to fully understand the practical, economic, and political implications of different options.

Financial Information Strategy — 1998, Chapter 18 and 1999, Chapter 21

Assistant Auditor General: John Wiersema
Director: David Willey

Background

The April 2001 deadline to implement the Financial Information Strategy (FIS) is approaching rapidly.

33.173 The April 2001 deadline to implement the government's Financial Information Strategy (FIS) is approaching rapidly. Under FIS, the government is introducing accrual accounting; putting into place modern financial systems that support this new basis of accounting; and integrating the financial and operational information into day-to-day decision-making. FIS is a key prerequisite to introducing modern comptrollership in the federal government.

In February 2000, the Public Accounts Committee expressed concern with the slow pace of consultations on implementing accrual-based appropriations.

33.174 In September 1998, we reported on the broader issues surrounding FIS and discussed three strategic challenges facing the government:

- integrating FIS into departmental management;
- moving to accrual-based appropriations; and
- obtaining departmental "buy-in" to FIS.

33.175 Our November 1999 chapter examined departmental readiness to implement FIS and reviewed the central leadership demonstrated by the Treasury Board Secretariat. In general, we found that serious departmental planning for FIS had just started despite being less than 20 months from the implementation deadline. Public Works and Government Services Canada had successfully implemented the FIS central systems while the Secretariat needed to strengthen its project management practices to move the project ahead.

33.176 The Standing Committee on Public Accounts (PAC) met in February 2000 to consider our November 1999 chapter on FIS. The Committee was concerned with the slow pace of consultations on implementing accrual-based appropriations. It recommended that the Secretariat complete its consultations as soon as possible and inform the PAC of its final decision and recommendation. The Committee also expressed an interest in the status of departmental implementation of FIS and recommended that the Secretariat develop statistical indicators, to be published on the Secretariat's Web site starting in May 2000. In addition, the Secretariat was asked to submit an annual report on the status of departmental connections to the FIS central systems, starting in June 2000.

Scope

33.177 For this follow-up we reviewed documentation of the Treasury Board Secretariat and Public Works and Government Services Canada on the status of FIS implementation. We interviewed officials of these central agencies and conducted a survey on the status of departmental implementation. The follow-up is based on information received before mid-September 2000.

Conclusion

33.178 Our November 1999 chapter stated that it was time for the government to "turn up the heat" in its efforts to implement FIS. In the past year, departments have made progress in connecting to the FIS central systems and are in the final stages of preparing their financial systems to support the new accrual accounting requirements under FIS. The Treasury Board Secretariat has made progress on the development of accounting policies but could be further ahead at this stage to permit departments to finalize the configuration of their systems prior to the start of the next fiscal year.

33.179 The Secretariat has improved its project management practices of the overall FIS implementation. For example, it has established a monthly progress reporting framework and the FIS Assistant Deputy Minister Steering Committee. It has also implemented the FIS Forum, where departmental FIS representatives meet to discuss issues and to share best practices. The Secretariat, with the assistance of FIS Forum working groups, has produced a number of important documents, including an accounting manual and guidance on change management and communication.

33.180 The government needs to continue its effort to successfully implement FIS systems and policies by April 2001. While that is an important milestone, departments and agencies need to ensure that improved financial information is integrated into day-to-day management decision making. This is crucial for government to develop the financial management environment needed under modern comptrollership. Change management is a critical component in achieving this.

Observations

Departments have made progress in connecting to the FIS central systems

33.181 The FIS central systems were implemented successfully in April 1999. In addition to providing payments, receipts and payroll services, these systems capture summary financial information from departments for use in preparing government-wide reports and financial statements. Thirty-five departments and agencies have already connected to these central systems. The remaining 63 departments and agencies are in the process of preparing their financial systems for the April 2001 deadline.

33.182 Public Works and Government Services Canada (PWGSC) is managing the FIS central systems and is co-ordinating the connection of the departmental systems. It continues to make extensive use of risk and project management techniques to minimize the risks associated with a large number of connections occurring at the same time. For example, PWGSC has insisted that departments and agencies sign memoranda of understanding, clearly indicating the roles, responsibilities, and milestones that need to be met to successfully connect to the central systems. These memoranda indicate that a large number of departments plan to carry out interface testing in the period ending January 2001, which is only two months before the implementation deadline. PWGSC is monitoring the departmental implementation closely, particularly in departments with extremely tight implementation schedules. Decisions on contingency plans will be made in November 2000.

The Treasury Board Secretariat has made progress with its accrual accounting policies but work still needs to be done

33.183 With less than seven months, as of September 2000, before the implementation of FIS systems and policies, the government needs to have a clear understanding of its accrual accounting policy requirements. Due to the complexity of modern financial systems, it is important that departments and agencies have this information now to configure their systems before April 2001. While the Secretariat has made progress in this area, work still needs to be done. For example, under FIS, departments will be required to produce a set of accrual-based financial statements. Revised requirements for these financial statements were issued for comments in August 2000 and are in the process of

The Secretariat implemented the FIS Forum, where departmental FIS representatives meet to discuss issues and to share best practices.

Public Works and Government Services Canada continues to make use of techniques to minimize system implementation risks.

The Secretariat has made progress with its accrual accounting policies, but work still needs to be done.

being finalized. Draft policies in other areas, such as transfer payments, prepaid expenses and environmental liabilities, have been issued for comments.

The Secretariat expects to complete its accounting manual in October 2000.

33.184 In his observations on the financial statements of the government, published in the Public Accounts of Canada, the Auditor General indicated that the Secretariat and departments appear to be spending considerable effort on developing accounting policies that are not currently required by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants; for example, inventories for consumption and intangible assets. He noted that many departments, particularly the smaller ones, already have their hands full capitalizing tangible capital assets without the added complexity of these additional policies.

The Secretariat has obtained $60 million in additional funding for FIS that will be allocated to departments and agencies over the three-year implementation period.

33.185 The Secretariat, with the help of the FIS Forum, is developing an accounting manual to help departments and agencies interpret and implement accrual accounting in their organizations. While we recognize that much progress has been made in a short period of time, as of September 2000, the manual is still not finished. The Secretariat expects to complete the manual in October 2000.

The Treasury Board Secretariat has improved its FIS project management

The Secretariat has instituted a monthly reporting framework, which will form the basis of FIS progress and readiness indicators.

33.186 In our November 1999 Report, we noted that the Secretariat needed to improve its FIS project management practices. Specifically, we recommended that the Secretariat:

- maintain a fully integrated master plan;
- obtain documented commitment from departments;
- obtain and review departmental FIS implementation plans;
- establish a reporting framework to monitor departmental progress;
- consider providing additional resources to departments where needed; and
- develop a comprehensive communications plan and provide guidance on change management.

33.187 The Secretariat maintains a high-level FIS master plan that is reviewed at the monthly meetings of the FIS Assistant Deputy Minister Steering Committee.

33.188 In the past year, the Secretariat has obtained $60 million in additional funding for FIS that will be allocated to departments and agencies over the three-year implementation period. In exchange, it obtained documented commitments from departments and their deputy ministers to implement FIS by April 2001.

33.189 The Secretariat also instituted a monthly reporting framework where departments report their progress on a number of key FIS implementation milestones. These reports will be summarized to form the basis of FIS progress and readiness indicators that were to be published in September 2000.

Integrating improved financial information into day-to-day decision making remains a challenge

33.190 Departments and agencies are working hard to implement their new financial systems and the accrual accounting policies required under FIS. While these are two key building blocks in the move to modern comptrollership in the government, the integration of better financial information into day-to-day management decision making is the ultimate goal. As we reported in our chapters, this represents a significant change management challenge, which requires planning, effort and most of all, time.

33.191 The Secretariat, with significant assistance of the FIS Forum, has recently produced a number of documents related to change management — a framework for change and guidance on developing change strategies and plans.

33.192 Many departments and agencies have expressed difficulty in obtaining manager buy-in to the need for FIS. These managers say that they cannot see the benefits. This indicates that a significant change management and communication challenge exists. Yet there are few departments that have developed change management strategies to move their organization to the new financial management environment. Many departments indicated that they plan to develop such strategies in the future.

33.193 Under FIS, departments will have greater responsibility for their accounting records. This means that the quality of the government's overall financial statements will rely heavily on the quality of the summary information of these departments. A strong financial management environment would help ensure the quality of the information maintained and used by departments in their day-to-day activities as well as the quality of the summary information provided to the centre for government-wide reporting purposes.

33.194 In this regard, our work on the financial management capability of departments, as reported in Chapter 13 of our October 2000 Report, found that gaps remain between current expectations for financial management and the existing capabilities of each of the departments we reviewed. We also reported that departments are at the initial stages of developing the capabilities needed for the Information Level of the Financial Management Capability Model. These capabilities are essential to many of the current initiatives of the federal government, including FIS and modern comptrollership. Change management is a critical component in achieving these goals.

Few departments have developed change management strategies to move to the new financial management environment.

The Treasury Board Secretariat has not yet finalized its consultations on implementing accrual-based appropriations.

33.195 The Public Accounts Committee has asked the Secretariat twice to complete its consultations and to submit its recommendations on moving to accrual-based appropriations. The consultations were initially scheduled for completion in November 1999 and then postponed to the fall of 2000. They are now expected to be completed and a decision with respect to the feasibility of implementing accrual-based appropriations made by the end of the current fiscal year.

A strong financial management environment would help ensure the quality of the information maintained and used by departments.

33.196 Given the timetable for Parliament and the estimates process, the earliest realistic date to introduce accrual-based appropriations would be for the 2003–04 fiscal year. The requirement to maintain and report information under two different bases of accounting for at least three years adds a level of complexity in a critical period of change. However, if managed well, departmental managers and members of Parliament could use this time to adapt to accrual accounting practices before accrual-based appropriations are introduced.

A decision on the feasibility of implementing accrual-based appropriations is now expected to be made by the end of the current fiscal year.

Veterans Affairs Canada — Disability Pensions — 1998, Chapter 23

Assistant Auditor General: John Wiersema
Director: Marilyn Rushton

Background

33.197 In our 1998 audit of Veterans Affairs Canada, we reported on the provision of disability pensions to veterans and other eligible recipients and on the changing nature of the Department's clients. The objective of our audit was to determine whether the Veterans Affairs Portfolio, which includes Veterans Affairs Canada and the Veterans Review and Appeal Board, was managing the disability pension program in a way that ensured that high-quality decisions were being made consistently and in a timely manner.

Veterans Affairs Canada has taken action in each area discussed in our 1998 chapter.

33.198 The audit noted that the Veterans Affairs Portfolio had been successful in meeting its commitment to significantly reduce turnaround times for processing disability pensions. We concluded that the Portfolio needed to continue enhancing this process by taking the steps necessary to improve the consistency, efficiency and overall quality of disability pension decisions.

33.199 The key areas of concern we raised in 1998 dealt with improving the services provided to applicants for disability pensions and the need for a strategy to address the changing nature of clients at Veterans Affairs Canada.

33.200 We made several observations and recommendations on the disability pension program. Our concerns included the need for:

- standard guidance materials in the preparation of applications;
- guidance materials to make entitlement decisions and to assess the extent of disability for pension purposes;
- regular analyses of the reasons for decisions that are overturned on review or appeal; and
- opportunities to make greater use of the departmental review process.

33.201 In addition, our 1998 chapter recommended that, in reporting to Parliament through its Report on Plans and Priorities, Veterans Affairs Canada explain the role it plays in relation to the peacetime members of the Canadian Forces, the changes expected in its client base and its strategy for adapting to these changes.

Scope

33.202 Our follow-up consisted of a review of actions taken by Veterans Affairs Canada in response to our recommendations. It involved enquiry, discussion and review of various documents supplied by the Veterans Affairs Portfolio. Our work was designed to provide Parliament a moderate level of assurance that our findings were addressed.

Conclusion

33.203 The Department has expended considerable effort to respond to our recommendations. It has taken action in each area discussed in our 1998 chapter and completed the corrective action for certain recommendations. Several initiatives, including the planned revisions to the table of disabilities and greater use of the departmental review process, are under way. In addition, the Department is working on a number of initiatives that address the needs of its Canadian Forces clients. These initiatives focus on meeting the needs of these clients under existing legislation. In January 2000, a joint

VAC-DND (Veterans Affairs-National Defence) Task Force was established to examine the way in which Veterans Affairs Canada does business and to redefine programs and services for Canadian Forces clients. This task force is scheduled in May 2001 to provide options for the Minister to take to Cabinet. It is too early to determine whether the expected results of the above-noted initiatives will be achieved in a timely manner.

Observations

Preparation of first applications

33.204 In 1998 we recommended that Veterans Affairs Canada develop service standards for its role in preparing a first application for disability pension benefits. The Department's response in 1998 stated that it chose not to include service standards on the time to carry out these services, because most of the activities involved in case preparations lie outside the Department's control, either with outside agencies or applicants.

33.205 However, since 1998, the Department has implemented internal performance standards to ensure active follow-up and case management in the collection of documentation for disability pension applications.

Preparation of disability pension applications

33.206 In 1998 we recommended that the Department improve the services provided to applicants in the preparation of disability pension applications by:

- improving standard national guidance materials and manuals;
- ensuring that new pension officers receive appropriate initial training on a timely basis; and
- re-examining workload distribution.

33.207 We found that the Department has developed a Pension Officer Reference Manual to meet the need for a standardized information and procedures manual, and has developed standardized procedures for the first application process. The Department also provides a training workshop by qualified personnel for new pension officers as soon as operationally possible.

33.208 The improved guidance materials and the training workshop will assist the Department in providing consistent quality service to disability pension applicants.

33.209 The Department has conducted a study on workload and related allocation of resources for its district and regional offices. As a result of the study, some resources were reallocated to meet workload requirements.

Adjudication of first applications

33.210 In 1998 we recommended that Veterans Affairs Canada improve guidance materials used in making entitlement decisions and in assessing the extent of disability for pension purposes. We also recommended that guidance materials be revised periodically to reflect the trends of disability pension claims.

33.211 The Department has developed a Pension Adjudication Reference Manual. The manual provides a comprehensive resource so that all adjudicators have access to identical and current information.

33.212 The Department is presently undertaking an extensive revision of the table of disabilities, which is the instrument used in assessing the extent of disability for pension purposes. The project is scheduled for completion in March 2001. While the Department has made good progress on our recommendation, it is important that resources remain available for this project to ensure a timely completion.

33.213 In 1998 we recommended the Department document the reasons for assessment decisions and provide these reasons to applicants. We found that the reasons for assessment decisions in hearing loss claims are provided to applicants; however, for psychological cases, the reasons are documented in a memo to file but are not provided to the applicant in the decision letter.

33.214 When the Department completes the revision of its table of disabilities, it will be able to better articulate the reasons for assessment decisions. In the meantime, the Department has taken steps to sensitize staff of the need to provide the clearest rationale possible, subject only to the limitations imposed by the existing guidance materials.

Overturned decisions during the review and appeal process

33.215 In 1998 we recommended that to improve the quality and efficiency of decision making, the Veterans Affairs Portfolio carry out regular analyses of the reasons for decisions that are overturned by the Veterans Review and Appeal Board.

33.216 We found that the Department has carried out monthly reviews of decisions rendered by the Veterans Review and Appeal Board. A sample of review and appeal decisions are reviewed to determine the basis for overturning the first-level decisions, the policy direction of the Board, the need for departmental policy or legislative changes, and the need for training. Monthly reports are generated to identify issues with respect to policy, operations, medical assessments and training. Ad hoc reports are prepared on specific Board decisions that may require follow-up action or discussion, and a selection of Board decisions are circulated for training purposes.

33.217 The Veterans Review and Appeal Board, in addition to reviewing the comments contained in the Department's review, has completed several initiatives in response to our 1998 recommendations. The Board's initiatives include:

- the analyses of federal court cases;
- the development of The Consistency Guideline for format, style and language use in the Board's decision document;
- a Peer Review of Members' Decisions pilot project; and
- the Veterans Review and Appeal Board Client Survey, conducted in the spring of 2000.

Opportunities for greater use of the departmental review process

33.218 In 1998 we recommended that to improve the efficiency and timeliness of decision making in the disability pension program, Veterans Affairs Canada examine opportunities to make greater use of the departmental review process.

33.219 The Department has developed a directive on the use of departmental reviews for inclusion in its Pension Officer Reference Manual. The purpose of the directive is to clarify the process or remedy to use in different circumstances. As well, as part of the Department's project to review decisions overturned by the Veterans Review and Appeal Board, cases that could have been handled through departmental reviews rather than by the Board are being identified for training purposes.

33.220 In August 2000, the Department began a pilot project on the use of departmental reviews for clients still serving in the Canadian Forces. The purpose of the project is to determine whether a co-operative effort can increase significantly the number of favourable decisions earlier in the pension process and thereby create greater client satisfaction and reduce review hearings by the Veterans Review and Appeal Board at the pilot sites.

Information on the changing nature of clients

33.221 In our 1998 audit, we noted that in reporting to Parliament through its Report on Plans and Priorities, Veterans Affairs Canada had not explained the role it plays in relation to the peacetime members of the Canadian Forces, nor had it explained the changes expected in its client base and its strategy for adapting to these changes.

33.222 We found that the recent Report on Plans and Priorities and the Portfolio Performance Report included several sections describing the active role of the Department in relation to the career and support of current and former peacetime members of the Canadian Forces.

33.223 The Department has embarked on several initiatives, including the Review of Veterans' Care Needs Project and the Veterans Affairs Canada-Canadian Forces Project, to further study the impact of the shift in client composition on program delivery and to develop strategies for effecting change as required. In April 1999, the DND-VAC Centre for the Support of Injured and Retired Members and Their Families was opened.

33.224 The Review of Veterans' Care Needs — Phase III, a study of issues related to the relevancy and appropriateness of care and support of Canadian Forces clients and families, was completed in March 2000. The findings of the study will be used in the Joint VAC-DND "Continuum of Service Project". This project will determine options for the Department's future program development and delivery to Canadian Forces clients.

33.225 We believe that the Department has made good progress in gathering information on the changing nature of the its clients, particularly the Canadian Forces. It is now ready to develop options to meet its clients' needs.

33.226 Any significant changes required in programs, services and benefits to meet the needs of Canadian Forces clients will be considered in the Continuum of Service Project scheduled for completion in May 2001. Subsequent implementation of changes will depend on government approval and funding.

Revenue Canada — International Tax Directorate: Human Resource Management — 1998, Chapter 24

Assistant Auditor General: Shahid Minto
Principal: Barry Elkin

Background

The International Tax Directorate has moved forward on a number of human resource initiatives, but it is too early to judge their success.

33.227 In our 1998 audit, we noted that the International Tax Directorate of Revenue Canada (now the Canada Customs and Revenue Agency) required a stable work force of highly skilled professionals to properly manage the risk to the tax base in this complicated, knowledge-intensive area. However, both at headquarters and in Tax Services Offices, we found a high rate of staff turnover, low average levels of experience, and the use of secondments, redeployments and acting assignments to fill many key positions. Coupled with long delays in the staffing process, this gave rise to a lack of continuity and stability in the Directorate. We recommended that analysis, planning and implementation of needed human resource initiatives be carried out as soon as possible and that databases be enhanced to provide managers with better information for human resource planning.

Scope

33.228 Our follow-up work involved reviewing the status report provided by the International Tax Directorate on its progress in implementing our 1998 recommendations. Our observations here are based on a review of this and other documents provided to us and on interviews with Directorate officials. These documents included an internal evaluation assessment study conducted by the Corporate Affairs Branch of the Canada Customs and Revenue Agency, reported in January 1999. The study noted, among other things, that the Directorate's activity structure needed a comprehensive review to ensure that the program delivery framework was effective and efficient. The study also found that the Directorate was not providing adequate direction to field offices.

Conclusion

33.229 Significant change has occurred in the Directorate since our 1998 audit. It has moved forward on a number of human resource initiatives in response to concerns raised in our report and in the 1999 evaluation assessment study and to the new issues emerging in the field of international taxation. Many of the initiatives are in their preliminary stages and it is too early to judge their success. Some are broad corporate initiatives that are not directly under the control of the International Tax Directorate. All are long-term initiatives, and the challenge will be to maintain their momentum over time to fully address our recommendations.

Observations

Staff stability

33.230 The most notable change in the Directorate is the increase in staff numbers at headquarters and in the ratio of permanent staff to staff on loan. In response to our recommendation, the Directorate prepared comprehensive staffing plans for both 1999 and 2000. In 1998 there were 80 staff at headquarters, and by 30 April 2000 this had risen to 146 (see Exhibit 33.3). The staff increases were due to legislative changes and the anticipated increase in workload to deal with advance pricing agreements, double taxation cases and exchange of information with Canada's treaty partners.

33.231 In 1998 we were concerned that 48 percent of the Directorate's staff at

Agency headquarters were on loan from other directorates, including 12 of the 32 senior auditors. At 30 April 2000, only 18 percent were on loan, including 3 of the 48 senior auditors.

33.232 The Directorate is also taking action to stabilize its senior management cadre. In 1998 we noted that only one of the four divisions at headquarters had a director who was permanent in the position, and the director general position had been vacant for an extended period of time. Currently, the director general, a deputy director general and a director are permanent in their positions. The two acting directors are expected to be made permanent in the near future.

33.233 Given this period of transition, many of the Directorate's staff at headquarters do not have extensive experience in the international tax field — only 2.5 years on average. In 1998 we noted that the Directorate was having difficulty retaining staff because of the demand elsewhere for their special expertise. Due to the number of departures in the 20 months since our audit, 113 people were hired to achieve a staff increase of 66 (see Exhibit 33.3).

33.234 In response partly to the evaluation assessment study and partly to the growth and change in the field of international taxation, the Directorate is implementing a new organizational structure at headquarters. This structure is designed to strengthen functional guidance to the field offices while grouping the corporate functions of policy, budgeting and strategic planning. Greater emphasis will be placed on transfer pricing as an element distinct from double taxation cases, advance pricing agreements and exchange of information. The new structure will also allow the Directorate to handle all tax procedures involving film and television production, a growing and important industry. A fifth Division, Competent Authority Services, has been added to the Directorate.

33.235 At Tax Services Offices (TSOs), the number of international staff has remained stable at about 395. The average experience has increased slightly from less than 3 years in 1998 to 3.75 years at May 2000. However, the percentage of international tax employees who are permanent in their positions has declined from 87 percent in 1998 to 76 percent in May 2000. Moreover, only 62 percent of senior tax auditors are permanent in their positions. The Directorate has informed us that some TSOs rotate their staff to acquire experience in all tax programs, which means that a high percentage of staff are on loan at any given time.

Many of the Directorate's staff at headquarters do not have extensive experience in the international tax field — only 2.5 years on average.

Exhibit 33.3

International Tax Directorate – Staff Resources at Headquarters

Division	Total Employees August 1998	New Staff	Departures	Total Employees April 2000
Director General's Office	9	14	5	18
Special Projects	2	1	3	0
International Tax Strategy	3	12	4	11
Transfer Pricing and Competent Authority	25	34	5	54
International Audit	19	22	15	26
Non-Resident Assessing and Withholding	22	30	15	37
Total	**80**	**113**	**47**	**146**

Source: Canada Customs and Revenue Agency

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Source: Canada Customs and Revenue Agency

The staffing process

The Canada Customs and Revenue Agency is currently building a competency-based human resource management system for Agency-wide use.

33.236 In 1998, we noted that there were long delays in the staffing process and it took an unusually long time to mark examinations and establish eligibility lists. This was due in part to the cumbersome rules governing human resource management in the public service and in part to the external appeals process. On 1 November 1999, the Canada Customs and Revenue Agency was established as a separate employer under the *Public Service Staff Relations Act*. The Agency believes that the staffing flexibility it now has will allow it over time to accelerate staffing actions considerably.

33.237 On 23 March 1999, the Agency presented an action plan to the Public Accounts Committee to address the concerns raised in our 1998 chapter. The action plan included conducting a demographic study, developing competency profiles, offering a variety of training initiatives, and establishing prequalified pools of candidates for forecast vacancies. The Agency's Business Plan and its Performance Report for that year included elements of this action plan.

33.238 The demographic report was completed 26 March 1999. It presents a snapshot of the Compliance Programs Branch work force as a whole. The Directorate is part of this Branch. The report notes that the highest proportion of employees eligible for retirement in the next 10 years is in the auditor group, particularly the middle to senior auditor group, 48 to 78 percent of whom may retire. It also notes that the highest proportion of employees eligible for retirement will be at headquarters — 51.44 percent. The report states that a sound strategy is essential to recruit, maintain and develop highly competent staff. The Branch intends to update the information in this demographic study and use it to prepare staffing plans.

33.239 The Canada Customs and Revenue Agency is currently building a competency-based human resource management system for Agency-wide use. The Human Resources Division has developed a catalogue of competencies that identifies the skills, knowledge, abilities or behaviours that contribute to successful job performance. Many of the competency profiles, which define the level of proficiency required in each competency in order to do a job well, have also been developed for positions in the International Tax Directorate. The majority of the Directorate's management and administrative support positions have not yet been addressed because they are to be established across the Agency.

33.240 All training and learning activities in the Branch have been listed and plans are to match these with the competency profiles. The result will be a competency profile and a corresponding learning profile for each job. Managers and employees will then be able to develop individual learning and development plans for specific positions and for career development.

33.241 The standardized assessment of established competencies will provide the basis for prequalification of candidates for promotional opportunities. The extent to which this will speed up the staffing process is not known at present. Headquarters is still resolving outstanding appeals of competitions run previously under the *Public Service Employment Act*.

33.242 The action plan presented to the Public Accounts Committee included three trainee programs to ensure a well-qualified and well-trained work force. One of the programs was to recruit and train basic auditors for the field, not specifically for the International Tax Directorate. At present, there are about 58 participants in the program. The two other programs were to prepare auditors for anticipated vacancies at more senior levels. With the introduction of a competency-based human resource management approach, neither initiative has gone forward.

33.243 As many of the activities in the action plan are now being implemented and are long-term in nature, it is too early to judge their effectiveness in attracting and retaining highly skilled people.

Human resource information system

33.244 In 1998 we noted the need for reliable human resource information systems to provide key information on employees. The Directorate needs to maintain information on employees' work location, occupational group and level, and years of experience, among other things. At that time, Revenue Canada indicated that a department-wide project was under way, called the Corporate Administration System (CAS). The human resources component of CAS was to provide enhanced human resource information. A portion of this component was implemented in July 1999. It allows for the recording of basic data on employees, such as job classification and compensation. However, currently it does not provide information on employee experience or performance and does not allow for the roll-up of information on the number of employees acting in positions or on loan from other areas. The use of CAS to track employee training varies from office to office, and the training module is not fully operational. The development and implementation of future human resource modules depends on the needs definition that emerges from the competency-based approach to human resource management.

Grants and Contributions: Selected Programs in Industry Canada and Department of Canadian Heritage — 1998, Chapter 27

Assistant Auditor General: Richard Flageole
Principal: Peter Simeoni

Background

33.245 In 1998 we reported on selected grant and contribution programs in Industry Canada and the Department of Canadian Heritage. In Industry Canada, we audited contributions under the Ontario Base Closure Adjustment Program (OBCAP), and the contributions to the Canadian Network for the Advancement of Research, Industry and Education (CANARIE Inc.) and to the Pre-Competitive Applied Research Network (PRECARN Associates Inc.). In Canadian Heritage, we audited grants and contributions under the Multiculturalism Program.

33.246 Our report had the following three messages:

- Our audits of grant and contribution programs over the past 21 years have demonstrated a long series of persistent problems.
- Significant opportunities exist to improve the management of Industry Canada's OBCAP and Canadian Heritage's Multiculturalism Program.
- Industry Canada could strengthen accountability for performance for its contribution programs delivered by the third parties, CANARIE and PRECARN.

33.247 We suggested that there were many reasons why these problems persisted, some of which had to do with situations where decision makers simply have not followed the rules on grants and contributions. There were also other, more systemic reasons having to do with weak management practices — in particular, failures to set clear, attainable goals, to exercise due diligence, and to measure performance. In short, concern for results was inadequate.

33.248 The Standing Committee on Public Accounts considered our report and made a number of recommendations, which were tabled in the House of Commons. In particular, the Committee recommended that Industry Canada and Canadian Heritage report the objectives for all their grant and contribution programs in their departmental performance reports, beginning in 1999. The Committee also recommended that they report actual outcomes against expected results for these programs, beginning in 2000. In its response to the Committee's report, the government undertook to remedy the problems identified in the audit as expeditiously as practical. The Committee further recommended that the Office of the Auditor General consider undertaking a comprehensive audit of the management of grant and contribution programs and report its conclusions and recommendations to Parliament. In response to this recommendation, the Office is undertaking a government-wide audit and will report its findings in the fall of 2001.

33.249 In summarizing the problems that have persisted in the management of grant and contribution programs since 1977, we suggested that weak management practices was a reason for some of the difficulties. As promised in our report, we have provided guidance on risk identification for grant and contribution programs. This guidance results from our experience in value-for-money audits of grant and contribution programs, the advice of managers in Industry Canada, and managers from many other departments. It is intended to provide managers and staff of grant and contribution programs with a tool to identify risk. It complements and reinforces government policy and direction by helping managers assess and improve their current practices.

Scope

33.250 We reviewed the status of commitments made by Industry Canada and the Department of Canadian Heritage in response to our recommendations and those of the Public Accounts Committee (see Exhibit 33.4). We also reviewed the status of commitments made by each department in subsequent correspondence with the Chair of the Public Accounts Committee.

33.251 We conducted interviews with program staff in Ottawa and Toronto from Canadian Heritage's Multiculturalism Program, and in Ottawa from Industry Canada's OBCAP, CANARIE and PRECARN programs. We reviewed supporting documentation and status reports, as well as recent internal audits of the Multiculturalism Program.

Conclusion

33.252 We are satisfied that Industry Canada is making reasonable progress in addressing our recommendations and those of the Public Accounts Committee; however it is too early to assess the results of measures put in place to establish annual performance expectations for CANARIE and PRECARN.

33.253 Our follow-up work uncovered a new accountability problem in the funding of PRECARN. In 1999 PRECARN requested $20 million in government funding for a six-year research program. In April of this year, PRECARN received the $20 million as a one-time grant as part of the 2000 federal budget. Because PRECARN will need to spend the money only as it incurs research costs, it has invested the $20 million and is earning interest. We have three concerns:

- Paying the money before it was actually needed results in additional interest costs to the government, which we estimate at about $5 million.
- PRECARN could earn $3.6 million on the $20 million it has invested, and the Department could not explain why PRECARN will receive more money than it had actually requested.
- There is no accountability to the Department for how this additional funding will be used.

Industry Canada is making reasonable progress in addressing our recommendations. However, our work uncovered a new accountability problem.

33.254 We have concluded that the Department of Canadian Heritage has not yet made sufficient improvement in the management of grants and contributions in its Multiculturalism Program. The Department has undertaken a number of initiatives to address the problems we found and to strengthen due diligence across the Department. However, a recent internal audit of projects approved between January and May 2000 shows that the results of those initiatives have not yet been reflected in the demonstration of a minimum standard of due diligence in the assessment and approval of grants and contributions. We plan to report on the Department's progress in addressing these problems again next year.

Canadian Heritage has not yet made sufficient improvement in the management of grants and contributions in its Multiculturalism Program.

Observations

Industry Canada

33.255 OBCAP. The Ontario Base Closure Adjustment Program was launched in 1994 to help communities affected by military base closures. The program was assigned a budget of $11.8 million over seven years. At the time of our audit in 1998, 19 projects had been funded and about $945,000 was left to be distributed over the final three years. The final date to submit new applications was 31 March 1999. Three projects were

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Exhibit 33.4

Status of Selected Public Accounts Committee Recommendations

Recommendation	Industry Canada	Department of Canadian Heritage
1. That the departments clarify all grant and contribution program objectives, and include them in their annual Performance Reports to Parliament for the period ending 31 October 1999.	Industry Canada included the objectives for all its active grant and contribution programs as at 31 July 1999 in the Performance Report released in the fall of 1999.	The Department informed us that in preparing its Performance Report for the period ending 31 October 1999, it realized that it would be impractical, within the constraints of the Treasury Board format, to include over 45 programs' objectives. Rather than present only the Multiculturalism Program's objectives, the Department undertook to identify, for subsequent reports, appropriate means to report equally on all programs.
2. That the departments begin to report actual outcomes against the expected results in their performance reporting to Parliament, beginning for the period ending 31 March 2000.	We reviewed a draft of the relevant section of Industry Canada's 1999-2000 Performance Report, which presented actual results of active grant and contribution programs up to 31 March 2000. The text referred the reader back to the previous year's Performance Report for information on the objectives of the programs. While the presentation of results was more in the form of outputs than outcomes and not necessarily linked to expected results, we conclude that the Department has made a good start in responding to this recommendation.	We reviewed an advance copy of Canadian Heritage's Performance Report. It presents a list of the transfer payment programs with transfers in excess of $5 million (per the requirement of the government's new Policy on Transfer Payments) with page references to sections of the report where more information on the program is presented. The information provided varied widely for the different programs and included statements of purpose, activity levels, or some outputs and outcomes where they could be linked to departmental strategic objectives.
3. That the departments review the decision-making processes for all grant and contribution programs and that they ensure that all eligible applications for funding are assessed against the criteria approved by the Treasury Board.	Following our audit, Industry Canada directed that submissions requesting approval of projects clearly demonstrate how the proposal meets all relevant program authorities and how the project will contribute to attaining the objectives of the program. The submissions should also address how the project meets the eligibility criteria and how the project has been assessed against the assessment criteria. These requirements were also added to the pre-approval integrity review conducted on all contributions greater than $500,000, and to the post-approval review conducted at year end on a sample of contributions less than $500,000.	The findings of Canadian Heritage's internal audit show that the Department's decision-making processes for the Multiculturalism Program did not at the time of the audit ensure that applications were assessed against the criteria approved by the Treasury Board. The Department implemented remedial actions, including mandatory due diligence training for all staff and managers who have grant and contribution responsibilities, a new grant and contribution information management system, and clarified accountabilities.
4. That the departments audit periodically all their grant and contribution programs and report the results of these audits in their annual performance report to Parliament, beginning fiscal year 2000-01.	Industry Canada's management control framework produced in March 2000 indicates the status of audits (completed or under way) for all its grant and contribution programs.	The Department's 2000-01 review plan targets a selection of grant and contribution programs for audits of recipient compliance with program terms and conditions, use of funds, and, where deemed appropriate, an examination of program management and delivery.

approved since our 1998 audit, bringing the total number of projects supported under the program to 22. Of the 22 projects, 13 were studies representing 27 percent of the funding, and nine were economic development projects, representing 73 percent of the total contributions approved. As of September 2000, Industry Canada records indicated that three active projects could submit potential claims of about $655,000 before 31 March 2001, when the program ends.

33.256 In 1998 we found little or no information on file to indicate that Treasury Board criteria had been considered in the decision to fund several of the projects we audited. Moreover, there was little information on project results. We recommended that Industry Canada ensure that the projects it funds in its contribution programs represent value for money to both the applicant and the program. In particular, the Department had to apply the terms and conditions approved by the Treasury Board for its grant and contribution programs, and document assessments to properly justify the decision to fund or not to fund a project.

33.257 Although OBCAP is nearing its end, the Department acted to correct these deficiencies and to apply lessons learned to future programs. Following our audit, the management of the program was transferred to a unit within the Department that manages the winding down of programs.

33.258 In addition, the following measures were undertaken in response to our audit of OBCAP:

- a review of the Project Summary Form used in the review and approval of new OBCAP projects to ensure that Treasury Board criteria are considered and documented; and
- a review of project files throughout the remaining mandate of the program.

33.259 The Department reviewed all projects approved as of May 2000 (21 of 22 projects). The findings corroborated our 1998 conclusions, identified additional issues for management's attention, and presented recommendations to generally improve grant and contribution program management in the Department.

Industry Canada acted to correct deficiencies in the Ontario Base Closure Adjustment Program (OBCAP) and to apply lessons learned to future programs.

33.260 Our 1998 audit had noted the lack of performance information on projects. There were no reports in the files of visits to the sites of the larger projects we audited, and final reports on projects we audited did not contain information on the fulfilment of program objectives. In response to these observations, staff have conducted and documented on-site visits to all OBCAP economic development projects. The Department has received reports for 14 of 19 completed projects and is making a concerted effort to obtain the rest. Officials told us that the results of an evaluation of OBCAP were expected to be reported at the end of November 2000.

33.261 CANARIE and PRECARN. CANARIE and PRECARN are examples of indirect or third party program delivery mechanisms. With this approach, Industry Canada provides funding to an organization outside the federal government, which, in turn, decides on the ultimate recipients of the money and manages the funding agreements.

33.262 CANARIE is a not-for-profit organization, created in 1993 as a collaborative venture involving industry, research and education communities, and the federal government. Its mission is to facilitate the development and application of advanced Internets in Canada and thereby contribute to the competitiveness of Canada's information and communications technology sector, as well as to the application of this technology in critical parts of the public sector. In August 1999, a new contribution agreement totalling $78 million was signed for the Phase 3 program

(1999-2004). Of this amount, $10 million was subcontracted to PRECARN.

33.263 PRECARN is a not-for-profit industry-led organization created in 1987. Its purpose is to foster collaborative, pre-competitive research in smart systems designed for applications that hold high potential economic benefits for Canadian firms. Phases 1 and 2 of the PRECARN program were supported by non-repayable contributions (Phase 1 – $16 million; Phase 2 – $19.4 million). In March 2000, the Treasury Board approved a single payment grant in the amount of $20 million to PRECARN in support of Phase 3 (2000-06).

Industry Canada has taken appropriate steps to monitor due diligence processes in CANARIE Inc. and has set the stage for improved performance management.

33.264 In 1998 we recommended that Industry Canada:

- obtain assurance that CANARIE and PRECARN exercise due diligence in selecting and managing projects;
- set clear annual performance expectations for its contributions; and
- assess performance annually.

33.265 In assessing the Department's response to our recommendations, it is necessary to understand the phased nature of the operations of CANARIE and PRECARN. In general terms, once Cabinet approves federal support, Industry Canada works with each organization to establish a funding agreement that outlines the objectives that the Department expects to achieve through the research that will be funded by the organization. The organization then identifies priority areas for support that address the Department's objectives and issues requests for proposals to the community of eligible applicants. The organization selects research projects for support from those proposed and then can develop annual performance expectations to address the Department's objectives and to report annually on outcomes relative to these expectations.

33.266 **CANARIE.** The contribution agreement for Phase 3 of CANARIE came into force on 1 April 1999. The new agreement specifically addresses our observation on improving accountability for program performance by requiring CANARIE to provide the Department with a comprehensive annual report on program progress and on performance. In April 2000, the Minister approved an operational plan identifying the priority areas for funding and the criteria for evaluating proposals for support. The first call for proposals was issued in the fall of 1999 for research projects in one of the priority areas, and the selection of projects was completed in May 2000.

33.267 CANARIE submitted a draft of its first annual program progress report by July 1, as required. This report describes the first year of Phase 3 activities. The first annual performance report required by Industry Canada is due at the end of September 2000. Using the performance framework that CANARIE developed jointly with Industry Canada earlier in the year, CANARIE is expected to report on results relating to the design and launch of Phase 3 and to identify expected results for the coming year for research activities. Future reports will discuss annual and cumulative performance.

33.268 In 1998, we also recommended that Industry Canada take steps to increase its assurance that due diligence is being performed. As a result, Industry Canada staff are assessing the peer review processes under Phase 3.

33.269 We concluded that Industry Canada has taken appropriate steps to monitor CANARIE's due diligence processes and has set the stage for improved performance management of Phase 3. Time constraints prevented us from assessing whether the expected results being developed by CANARIE will address our recommendation for clear annual performance expectations.

33.270 **PRECARN.** Industry Canada took steps with Phase 2 of PRECARN to address our observation that greater assurance was needed to ensure funds were being used for the purposes agreed. The Department introduced a project-level analysis of claims to ensure projects are progressing satisfactorily relative to strategic program objectives. This led to the provision of more detailed guidance on the Department's expectations for reporting under Phase 3.

33.271 The funding agreement for Phase 3 requires PRECARN to submit a framework for the implementation of Phase 3 by the end of September 2000. The framework is expected to specify how PRECARN will monitor the performance of participants. PRECARN is also expected to submit an annual review of progress to ensure that the program's objectives are being met. In response to our recommendation that the Department take steps to assure itself that PRECARN's due diligence meets expectations, Industry Canada staff reviewed the first peer review process conducted under Phase 3 in August 2000.

33.272 We concluded that Industry Canada has taken appropriate action to assure itself that funds are being used for the purposes intended and that due diligence meets departmental expectations. It has also taken steps to set the stage for stronger performance management under Phase 3 of PRECARN. Again, we were unable to assess whether the implementation plan under development will address our recommendation on clear annual performance expectations because of time constraints.

33.273 Payment made in advance of need and accountability is weak. In 1999, PRECARN had requested $20 million in government funding for a six-year research program. Funding for PRECARN was announced in the February 28, 2000 federal Budget, payable in full in fiscal year 1999-2000. In order to implement the Budget decision, Industry Canada obtained Treasury Board approval for a one-time payment of $20 million as a grant. We are concerned by the shift from contribution funding (used in Phases 1 and 2) to grant funding for Phase 3. We would have expected that, given the Department's recent efforts to strengthen accountability for performance in response to our 1998 audit, and the history of contribution funding for PRECARN, a contribution agreement would have continued to be the appropriate funding instrument.

33.274 The cash management provisions of the Treasury Board's Policy on Transfer Payments require that grants should not be paid to recipients in advance of need and that payments should be timed to correspond as closely as practicable to recipients' cash flow requirements. Funds advanced earlier than actually required by the recipient to meet imminent expenditures result in additional interest costs to the government. We estimate that the added cost to the government of this $20 million payment in advance of need could be as much as $5 million. The Department obtained Treasury Board approval for an exemption to the policy to allow it to make a one-time advance payment to PRECARN and thus implement the original Budget decision.

The funding agreement with PRECARN Associates Inc. did not give clear direction on the use of additional funds earned as interest.

33.275 The Department informed us that PRECARN has invested the $20 million, and that it could earn an additional $3.6 million in interest on the grant over the next six years. Accordingly, we expected to find clear direction in the funding agreement with PRECARN on the use of these additional funds earned as interest, as well as a requirement for PRECARN to report on the disposition of these funds. We found no such requirements in the funding agreement, nor were departmental officials able to satisfactorily explain why PRECARN received more funding than it had requested.

***Industry Canada's response:** As part of the budgetary process, the 2000 Federal Budget provided for a one-time grant of*

$20 million in fiscal year 1999-2000 to PRECARN.

From the government's perspective, the provision of a grant was deemed the most effective method for pursuing Phase 3 of PRECARN's Research Program, as it provides the necessary flexibility to negotiate the best arrangements needed to maximize the leverage provided by government funds. It also ensures that research and development will be a timely and effective vehicle for development and adoption by Canadian firms, in the context of rapid technological change.

The Funding Agreement negotiated with PRECARN required that it submit a comprehensive Implementation Framework that would detail all financial, administrative and operational plans. The Department worked with PRECARN to ensure that provisions for the management of the interest were put in place. The Draft Implementation Framework, submitted to Industry Canada in September 2000, provides for the allocation of interest in the same manner as funds for the whole Program.

We cannot conclude that Canadian Heritage has made reasonable progress in clarifying the Multiculturalism Program objectives.

Canadian Heritage — Multiculturalism Program

33.276 The Multiculturalism Program uses a number of approaches to achieve its objectives, one of which is grants and contributions. In 1999-2000, the budget for grants and contributions was $16.47 million.

33.277 In our 1998 audit of this program, we found ambiguity surrounding the results expected from funded projects in relation to the program objectives, a lack of due diligence in 30 percent of the cases we reviewed, and inadequate monitoring of project performance. We recommended that the Department of Canadian Heritage:

- further clarify the objectives of the Multiculturalism Program by defining clear, attainable goals and expected annual results;
- ensure that due diligence is exercised in the review and approval of grants and contributions under the Program; and
- ensure that recipients provide the required performance information.

33.278 In its response, the Department acknowledged the importance of further clarifying program objectives. It stated its intention to renew its emphasis on the rigorous application of assessment criteria in the review and approval of grants and contributions, and to monitor results in order to assess their impact and effectiveness.

33.279 Following its hearing on our report, the Public Accounts Committee obtained commitments from the Department to a series of corrective actions. Since November 1999, the Departmental Review Committee has received reports on actions now under way in response to our audit and the Public Accounts Committee's recommendations.

33.280 Program objectives remain unclear. We cannot conclude that progress has been reasonable in clarifying program objectives by defining goals and expected results. The Department produced a first draft of a program performance framework in March 2000. When completed, the framework is intended to identify expected results (direct outcomes and ultimate impacts) and key performance measures. The Department informed us that program managers will finalize the performance framework and provide it to program staff in November 2000. We could not assess the extent to which the framework addresses our expectations as it was not complete when we finished our work. Management informed us that the development of a performance framework for the Multiculturalism Program was necessarily delayed by a 1999 exercise to set new strategic objectives for the Department. However, in our view, the ability of Multiculturalism staff to exercise due diligence in selecting projects hinges on a clear understanding of what the Program is intended to achieve. Therefore, we expected that identifying expected results for the Program would have been done more expeditiously.

33.281 Due diligence has not improved sufficiently. In 1998 we could not assure ourselves that departmental officials had exercised due diligence in approving about 30 percent of the projects we audited. In 2000 we found that while some remedial action is under way, there are still serious problems with due diligence.

33.282 The Department accelerated action on our recommendations and the government's commitments to the House of Commons in the latter part of 1999 and early 2000. A limited scope internal audit of projects funded under the program between October 1998 and 31 March 1999, identified a number of continuing weaknesses in due diligence. The Department used the audit findings as the basis for due diligence training sessions developed and delivered throughout the Department between January and May 2000. The Department also implemented a new management information system, which is designed to support due diligence in the management of all departmental grants and contribution programs.

33.283 The Department recently conducted a second, broader internal audit of grant and contribution projects approved between January 2000 and May 2000. The audit report concludes that 19 percent of the files reviewed did not meet the minimum standard of due diligence; that is, assessments still did not take into consideration all of the criteria set by the Treasury Board and the assessment practices expected by the Department. A further 37 percent of files were rated as only "borderline acceptable". The audit observed a number of problems — for example, projects not linked to one of the five program objectives, unclear objectives and expected outcomes, no plans to assess impacts and evaluate results, and insufficient information on project budgets. The audit also found that three of the sampled projects included ineligible activities, and identified four projects where the Department had improperly used grants and contributions where contracts for services were the required vehicle.

There are still serious problems with due diligence in the Multiculturalism Program.

33.284 Based on our review of the findings of the internal audit and management's actions to date, we concluded that the Department's response to the recommendation of our 1998 audit is unsatisfactory. We intend to follow up again in one year to assess the impact of more recent remedial actions on the actual performance of due diligence.

33.285 Project reporting still needs improvement. Our third recommendation was that the Department ensure that recipients provide the required information on project performance. In 1998 we found that one third of the files we audited did not contain the required final reports. The recent internal audit examined 30 grants where reporting had been imposed. The audit found that the conditions had been met in 79 percent of the files.

Department of Canadian Heritage's response: *When the internal audit revealed that the results of departmental due diligence initiatives were not sufficiently reflected in audited files, a Management Improvement Action Plan was established. This Management Improvement Action Plan completes the Performance Management Framework (implementation through a national workshop in November 2000), the revision of management controls and structures, and an exhaustive centralized monitoring of project files for National Review Committee recommendation. A set of directives addresses specific deficiencies identified during the audit. These measures will be fully implemented prior to follow-up by the Auditor General in 2001.*

Chapter 34

Other Audit Observations

The work that led to other audit observations was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

Table of Contents

Page

Main Points 34-5

Introduction 34-7

Atomic Energy of Canada Limited

AECL records its decommissioning and site remediation liabilities 34-8

Canada Customs and Revenue Agency and Human Resources Development Canada

Dealing with suspected abuse and fraud in the Employment Insurance program 34-10

Human Resources Development Canada and the Canada Employment Insurance Commission

Lack of clarity on basis used in setting Employment Insurance premium rates 34-18

Federal Investment in Big Science Projects

The Sudbury Neutrino Observatory 34-22

Other Audit Observations

Main Points

34.1 The *Auditor General Act* requires the Auditor General to include in his Report matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

34.2 This chapter fulfils a special role in the Report. Our other chapters normally report on value-for-money audits or on audits and studies that relate to operations of the government as a whole. "Other Audit Observations" reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

34.3 This chapter covers the following:

- Atomic Energy of Canada Limited records its decommissioning and site remediation liabilities;
- managing suspected abuse and fraud in the Employment Insurance program;
- lack of clarity on basis used in setting Employment Insurance premium rates; and
- federal investment in Big Science: the Sudbury Neutrino Observatory.

34.4 Although each audit observation reports matters of significance, they should not be used as a basis for drawing conclusions about matters not examined.

Introduction

34.5 This chapter contains matters of significance that are not included elsewhere in the Report and that we believe should be drawn to the attention of the House of Commons. The matters reported were noted during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

34.6 Section 7(2) of the *Auditor General Act* requires the Auditor General to call to the attention of the House of Commons any significant cases where he has observed that:

- accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
- essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue, and to ensure that expenditures have been made only as authorized;
- money has been expended other than for purposes for which it was appropriated by Parliament;
- money has been expended without due regard to economy or efficiency;
- satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented; or
- money has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

34.7 Each of the matters of significance reported in this chapter was examined in accordance with the legislative mandate, policies and practices of the Office. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The matters reported should not be used as a basis for drawing conclusions about matters not examined.

This chapter contains matters of significance that are not included elsewhere in the Report.

Atomic Energy of Canada Limited

AECL records its decommissioning and site remediation liabilities

We are pleased to report that Atomic Energy of Canada Limited (AECL) has recorded its decommissioning and site remediation liabilities in its 1999-2000 financial statements. For the first time since 1992, our annual Auditor's Report gives an unqualified opinion on AECL's financial statements. In accordance with generally accepted accounting principles, the Corporation recorded a liability of $377,500,000 representing its estimate, as at 31 March 2000, of the present value of future expenditures.

Background

Atomic Energy of Canada Limited has recorded its decommissioning and site remediation liabilities in its 1999-2000 financial statements.

34.8 Atomic Energy of Canada Limited (AECL) is a parent Crown corporation that reports to Parliament through the Minister of Natural Resources. AECL develops, markets and manages the construction of power and research reactors and carries out related research. It manages nuclear waste at its laboratory sites in Chalk River, Ontario and Pinawa, Manitoba. In our 1992 annual Auditor's Report, we first brought to Parliament's attention the fact that AECL faced significant decommissioning and site remediation liabilities that were not recorded in its financial statements.

34.9 Subsequently, AECL disclosed these liabilities in the notes to its financial statements for the years ended 31 March 1993 through 31 March 1999. However, we were not able to provide an unqualified opinion on the reliability of the financial statements to the users of the statements, in particular, the Minister of Natural Resources, the government, members of Parliament, and the public.

34.10 We also reported, in both our 1993 and 1996 reports of the Auditor General, that AECL had not provided for these liabilities. The magnitude of the decommissioning and site remediation liabilities is such that they may place significant demands on government resources in the future. Generally accepted accounting principles require that the costs be recognized over the estimated lives of the corresponding facilities. This is important accountability information for Parliament. It is also important that AECL adhere to the *Financial Administration Act*, which requires parent Crown corporations to prepare annual financial statements in accordance with generally accepted accounting principles.

34.11 In addition, our 1998 to 2000 Auditor's Reports brought an "other matter" to Parliament's attention. Since 1994-95, the Governor in Council has not approved AECL's five-year corporate plans, and AECL continues to work with the government to address budget and policy issues affecting the Corporation.

34.12 The government has indicated that it expects to approve AECL's five-year corporate plan for 2001-02 to 2005-06.

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#11

Conclusion

34.13 We are pleased to report that AECL has changed its accounting policies to comply with generally accepted accounting principles and has recorded its decommissioning and site remediation liabilities in its 1999-2000 financial statements. For the first time since 1992, our annual Auditor's Report gives an unqualified opinion on AECL's financial statements.

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Canada Customs and Revenue Agency and Human Resources Development Canada

Dealing with suspected abuse and fraud in the Employment Insurance program

Human Resources Development Canada (HRDC) and the Canada Customs and Revenue Agency (CCRA) have known for many years of the abuse and suspected fraud in the Employment Insurance program in British Columbia relating to false Record of Employment forms. HRDC and the CCRA have been unsuccessful in curtailing these abuses. An action plan needs to be implemented by HRDC and the CCRA to adequately deal with suspected abuse and fraud of the Employment Insurance program.

Background

34.14 The *Employment Insurance Act* is administered and enforced jointly by the Canada Employment Insurance Commission of Human Resources Development Canada (HRDC) and the Canada Customs and Revenue Agency (CCRA), previously known as Revenue Canada. HRDC administers the entire Act except for Parts III, IV and VII, which are the sole responsibility of the CCRA. HRDC is responsible for paying out employment insurance (EI) benefits and the CCRA is responsible for insurability provisions and collecting EI premiums.

Human Resources Development Canada (HRDC) and Canada Customs and Revenue Agency (CCRA) jointly administer and enforce the *Employment Insurance Act*.

34.15 The legislative changes, enacted in 1971, were structured so that only one federal government agency would be responsible for remittance and ensuring proper withholding by employers of payroll deductions such as income tax, Canada Pension Plan (CPP) contributions and EI premiums. The CCRA is responsible for resolving any insurability employment questions through insurability rulings. This allows a uniform interpretation and application of the coverage provisions of the Canada Pension Plan and the Employment Insurance program.

34.16 In 1999-2000, HRDC requested nationally approximately 27,000 insurability rulings related to EI benefits from the CCRA; 2,000 of those requests originated from HRDC's Investigation and Control Directorate. The Directorate's mandate is to prevent, deter and detect abuse and fraud committed against the programs and services that pay income benefits administered under the *Employment Insurance Act* and its regulations.

34.17 If during an investigation, the Directorate determines that a Record of Employment form is inaccurate, questionable or false in relation to a period of employment and/or insurable earnings, it requests an insurability ruling from one of CCRA's local CPP/EI rulings units. In cases of insurability, once HRDC requests an insurability ruling, it ceases its investigation. The Department cannot deny or recover EI benefits without an insurability ruling. The Record of Employment form is an important document to the Employment Insurance program. It is prepared by employers to reflect the actual hours or weeks and earnings of an employee prior to employment termination. An employee must submit this form along with their EI application to qualify for and obtain EI benefits.

Scope

34.18 The Office of the Auditor General received a complaint alleging

Canada Customs and Revenue Agency and Human Resources Development Canada

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Scope

34.18 The Office of the Auditor General received a complaint alleging extensive abuse and fraud of the Employment Insurance program by two industries in British Columbia's lower mainland. Further, the complainant alleged that these problems were occurring in other industries. The allegations stated that employers were issuing false Record of Employment forms to employees or other individuals so they could obtain EI benefits fraudulently. The complainant also alleged that HRDC and the CCRA have been aware of this fraud for over 20 years but have not taken appropriate action to stop it.

34.19 The scope of our examination was limited to how HRDC and the CCRA examined, investigated and responded to these alleged practices of abuse and fraud of the Employment Insurance program in British Columbia. We inquired into suspected false EI benefit claims relating to questionable Record of Employment forms. We interviewed HRDC staff and officials at various local British Columbia offices and at headquarters. We also interviewed CCRA staff and officials at the Vancouver Tax Service Office and at headquarters.

34.20 We reviewed HRDC investigation files involving suspected false Record of Employment forms issued by one industry in British Columbia. Our review encompassed over 250 HRDC claimant investigations relating to Record of Employment forms issued by four separate employers. We also reviewed the associated CCRA insurability rulings connected to these HRDC investigations involving over 250 CCRA insurability rulings. The period reviewed was from 1997 to 2000.

34.21 The findings in this audit are based on our review of HRDC's and CCRA's handling of suspected abuse and fraud in the Employment Insurance program in British Columbia relating to Record of Employment forms. Therefore, the findings should not be applied nationally.

Issues

34.22 HRDC officials have been aware of these alleged fraudulent practices for over 20 years. The Department advised us that they have undertaken initiatives, during the early 1980s and 1990s, to combat the abuse with mixed results. In 1997 they participated in a joint initiative with the Employment Standards Branch of British Columbia's Ministry of Labour, to deal with the alleged extensive abuse of British Columbia's Employment Standards and the Employment Insurance program by one industry in British Columbia. The initiative involved compliance investigations, educational activities for the industry and community awareness sessions.

HRDC and CCRA officials for many years have been aware of suspected fraudulent practices related to false Record of Employment forms.

34.23 CCRA staff and officials are aware of these suspected fraudulent practices that have been going on for many years. The CCRA informed us that in 1999, it joined the HRDC and British Columbia Ministry of Labour, Employment Standards Branch initiative and assigned some resources which included participating in joint interviews. A recent Tax Court of Canada decision will prevent the CCRA from continuing to participate in these joint interviews. The CCRA recently created a new job description called the Complex Case and Technical Review Officer and appointed one of its British Columbia rulings officers to this position. The responsibilities of this position include assisting and participating in joint efforts with HRDC in the resolution of complex cases where EI fraud is suspected.

34.24 We determined that there was abuse of the Employment Insurance program in British Columbia and that EI benefits were obtained through the use of false Record of Employment forms. This audit makes observations on the processes and practices used by HRDC and the CCRA to deal with the cases of suspected abuse and fraud in the Employment Insurance program in British Columbia.

The *Employment Insurance Act* is unclear on how rulings are to be made and appeals are to be decided.

Legislative guidance on rulings and appeals is silent

34.25 The *Employment Insurance Act* addresses the division of HRDC and CCRA roles in the administration of the insurability issue. However, it is unclear on how rulings are to be made and appeals are to be decided; the process is not transparent in our view. The Act allows the Minister of National Revenue to make regulations, which would regulate the procedure to be followed in making rulings or deciding appeals. To date, no regulations have been issued, but the CCRA does have internal administrative guidelines for making rulings and deciding appeals.

Lack of guidance and training

34.26 CCRA's ruling administrative guidelines are based on the premise that claimants and employers are honest. We reviewed CCRA's rulings training and policy manuals and found no information providing guidance on dealing with cases of suspected abuse or fraud.

34.27 In our opinion, rulings officers lack the guidance, training and experience necessary to handle cases of suspected abuse and fraud.

Limited review and examination

34.28 HRDC's Investigation and Control Directorate investigates EI claims where abuse and fraud is suspected. In investigations involving Record of Employment forms, HRDC's investigations include interviewing in person claimants and employers and examining business records. If sufficient evidence is obtained to question the validity of the Record of Employment forms, the Directorate ceases its investigation and requests an insurability ruling from the CCRA. In these insurability cases, the Directorate never completes an in-depth investigation as the matter is referred to the CCRA. We observed that, prior to referring the matter to the CCRA, the depth of the HRDC investigation varied from case to case.

34.29 Without an insurability ruling, HRDC cannot adjust a claimant's insurable hours, weeks or earnings even if it has evidence that the information is inaccurate or false. The one exception is if HRDC can prove that the claimant performed no work, making the Record of Employment totally false. However, the claimant or employer can still request an insurability ruling. In these cases, HRDC did not prove that the Record of Employment forms were totally false and therefore requested insurability rulings.

34.30 For an insurability ruling, CCRA rulings officers review information and documents submitted, interview claimants and employers usually by telephone or through a questionnaire, and may request photocopies of documents. We found that rulings officers seldom leave their offices to visit business premises, examine original business records or meet claimants or employers. Further, in interviews where there was a language barrier, CCRA rulings officers almost always used the claimants' family and friends as translators.

34.31 We were informed that rulings officers are not trained as auditors or investigators. Nor do they use the expertise of investigators or forensic accounting specialists, who are available through CCRA's special investigation units. In CCRA rulings that we reviewed, investigators or other specialists were not used.

34.32 CCRA's budgeted time standard to complete an insurability ruling is four and a half hours. CCRA officials told us that they use the time standard only as a guideline to allocate resources. Rulings officers advised us that they take between three to eight hours to complete a ruling that HRDC's Investigation and Control Directorate requests. Our review of over 250 CCRA insurability rulings on claimants relating to four employers, determined that rulings officers averaged five and a half hours to complete each ruling where abuse and fraud was suspected. In our opinion, this is insufficient time to adequately review, examine and reach a determination in cases where abuse and fraud is suspected. We strongly recommend that the CCRA re-examine the resources required to adequately deal with EI claims where abuse or fraud is suspected.

Evidence assessed differently

34.33 HRDC submits, to the CCRA rulings officer, information obtained during its investigation including interview notes with claimants and employers, copies of documents, and any working papers and reports.

34.34 CCRA rulings officers advised us that they must verify all facts provided by HRDC. They do this by interviewing claimants and employers and by asking similar questions to those asked by HRDC. If oral statements from claimants differ from those initially given to HRDC, and the rulings officers cannot resolve the contradiction, they will accept the new statement without any additional supporting evidence. Rulings officers advised us that the claimant and employer statements differed frequently from those initially given to HRDC. While rulings officers consider and weigh the evidence provided by HRDC, they almost always give greater weight to evidence they have personally obtained. In our opinion, this practice could lead to the credibility of evidence not being assessed adequately.

34.35 HRDC is not given the opportunity to make full representation, as it is not informed of any new oral or documentary evidence submitted. For example, rulings officers give claimants and employers the opportunity to rebut any statement they initially provided to HRDC and any other evidence submitted by HRDC. However, HRDC is not given the opportunity to comment or rebut any new statements or documents provided by claimants or employers to the CCRA. Rulings officers are not required to provide the reasons for their ruling decisions to HRDC investigators, claimants or employers and they rarely do.

Insufficient evidence to substantiate ruling

34.36 Our review of CCRA insurability rulings files determined that there was insufficient evidence, in many of the files, to substantiate the ruling decisions. Further, we determined that in many files the evidence contradicted the ruling.

We determined that in many files the evidence contradicted the CCRA ruling.

34.37 We also determined, from reviewing insurability appeals files, that many files had insufficient evidence to support the appeals decisions. We only reviewed the appeals decisions on claimants from one of the employers as the other cases were still unresolved in appeals at the time of our review.

Appeals Process

34.38 Claimants, employers or HRDC can appeal a ruling decisions to CCRA's Appeals Division. This is an appeal to the Minister of National Revenue. The mandate of the appeals officer is to provide a fair and impartial review of cases. Claimants and employers frequently appeal ruling decisions to the Minister. HRDC advised us that they generally accept CCRA ruling decisions and they rarely appeal.

34.39 The appeals process starts the re-examination of all evidence included in the rulings file. The evidence is reviewed and verified, and the claimants and employers are interviewed by telephone or through a questionnaire. This is the third time that claimants and employers are interviewed and asked similar questions. Appeals officers do not leave their offices to visit business premises, to review original business records or to meet claimants and employers. Also, appeals policy and administrative manuals do not

Claimants and employers are interviewed and asked similar questions three times.

address cases of suspected abuse or fraud. Appeals officers lack the guidance, training and experience to deal with cases where fraudulent activities are suspected.

34.40 Appeals officers advised us that claimant and employer statements often differ from those taken by rulings officers and HRDC. Appeals officers proceed on the evidence that they have personally obtained or verified. They place less weight on the evidence obtained by rulings officers or HRDC investigators, as they consider it hearsay. Appeals officers do not give HRDC the opportunity to make further representation to rebut new statements and evidence. Without the knowledge of the additional evidence submitted, HRDC is not in any position to make representation as permitted by section 93 of the *Employment Insurance Act*. Section 93 allows parties an opportunity to make representation to protect their interests.

34.41 Claimants, employers or HRDC can appeal the appeals decision to the Tax Court of Canada. Claimants and employers frequently appeal to the Tax Court. HRDC reports that they accept CCRA appeals decisions and they never appeal to the Tax Court.

34.42 Once an appeal is made to the Tax Court, the CCRA assigns a designated appeals officer to review the file and determine whether the CCRA should defend its position in the Tax Court. The designated appeals officer makes his decision without further representation from HRDC. In our opinion, it would be reasonable to expect that HRDC, as an interested party, be informed of any representations made and be given the opportunity to respond, prior to the decision of the designated appeals officer.

There were substantial delays in processing and completing suspected abusive and fraudulent employment insurance claims.

Delays in the process

34.43 There were substantial delays in processing and completing suspected abusive and fraudulent EI claims through HRDC and the CCRA. The majority of the files that we reviewed were at various stages in the appeals process after many months or years. Delays in the process could allow claimants to continue obtaining EI benefits for which they may not be entitled, or delay benefits unduly where a person is eligible, or postpone the recovery of EI overpayments. The CCRA has informed us that HRDC has started informing them of projected work relating to large fraud investigations. This will allow the CCRA to efficiently deal with the workload.

Prosecutions

34.44 The CCRA has never prosecuted employers or claimants under the offence subsection 106(4) of the *Employment Insurance Act*. This subsection encompasses the making, participating, assenting to, or acquiescing in the making of false or deceptive statements in a return, certificate, statement or answer filed or made as required. Further, HRDC has not prosecuted any employers under its offence sections in British Columbia in the last three years, but it has levied some administrative penalties.

Conclusion

34.45 The findings in this audit are based on our review of HRDC's and CCRA's handling of suspected abuse and fraud in the Employment Insurance program in British Columbia relating to Record of Employment forms. Therefore, the findings should not be applied nationally.

34.46 CCRA's rulings and appeals officers' lack of guidance, training, experience and expertise, combined with the existing limited review and examination and the methods used to assess evidence, are not conducive to obtaining accurate and complete facts, in order to reach supportable conclusions when abuse or fraud are suspected.

34.47 It would be reasonable that all affected parties in the insurability ruling process be given the opportunity to make a full and proper representation during the rulings and appeals process. To this end, they need to be fully informed by the CCRA of all evidence and representations made. This would allow them to make an informed decision on any representation they may wish to make to protect their interests.

34.48 The *Employment Insurance Act* is not clear on how insurability rulings are to be made and how appeals are to be decided. To date no regulations have been made by the Minister of National Revenue in this area and guidance to the parties is limited. Therefore in our view, the process is not transparent.

34.49 Based on the findings of this audit (see paragraph 34.45), HRDC and the CCRA need to implement an action plan that adequately deals with suspected abuse and fraud in the Employment Insurance program. They need to ensure that a concerted effort is applied to detection, prevention and deterrence of cases of suspected abuse and fraud.

Canada Customs and Revenue Agency's response: *We recognize the opportunity to improve our ability to deal with complex cases involving a suspicion of fraud. We have already created the position of Complex Case and Technical Review Officer to deal with complex cases where Employment Insurance (EI) fraud is suspected and have improved communications with HRDC on their work plans for fraud investigations. We communicate with HRDC on a regular basis on ways of improving our handling of this small but challenging portion of our rulings workload. Opportunities for improving rulings officers' expertise in handling cases involving EI fraud are also being pursued through a workshop on dealing with suspected EI fraud. In addition, rulings officers with the necessary third language capability are now being assigned to cases involving language barriers.*

The objective of the EI Rulings Program is to facilitate and encourage voluntary compliance in the determination of employment status and insurable employment and earnings by providing clients with reliable EI rulings. Rulings officers carefully research, analyze and weigh the evidence and facts of each particular case in order to make a just and equitable decision on insurability. The role of appeals officers is to provide a fair and impartial administrative review of appeals on insurability issues. Neither the rulings officer nor the appeals officer is performing an investigation or enforcement function in suspected cases of abuse.

As stated in the audit note, once HRDC requests an insurability ruling from the CCRA, it normally ceases its investigation of the EI claim in question and provides all available information to the CCRA. The CCRA then carries out whatever review and information gathering is necessary to complete the insurability ruling. In the case of an appeal of an insurability ruling, any documentation that has been gathered by HRDC and Rulings is included in the rulings file, which is forwarded to Appeals.

It is important for rulings officers and appeals officers to maintain their independence and impartiality in making their decisions. Therefore, great care must be exercised in involving HRDC in the process of issuing a ruling or deciding an appeal. The separate and independent roles of the CCRA and HRDC are set out in the Employment Insurance Act. *The need to retain this independence was* *recently reinforced in the Sharbells Fish Mart decision of the Tax Court of Canada. The provisions of the* Employment Insurance Act *and the recent Tax Court of Canada decision underline the need to guard against involving HRDC in the determination of insurability in a manner that may taint the process.*

The Employment Insurance Act *sets out both the rulings and appeals processes. Subsection 90(1) of the* Employment Insurance Act *states the areas where the Minister of National Revenue can rule and subsection 90(2) sets out the time frames. The administrative procedures and time frames required to appeal a ruling to the Minister of National Revenue and to appeal a ministerial decision to the Tax Court of Canada are set out in sections 91 to 94 and sections 103 to 105 of the* Employment Insurance Act.

The Office of the Auditor General is concerned that the Employment Insurance Act *is unclear on how rulings are to be made and appeals are to be decided and that these processes are, therefore, not transparent. To ensure that both workers and payors are fully aware of the elements involved in determining insurability issues, the CCRA has published guides and brochures, which are available both in paper copy and on the Internet. Information on the appeals process is provided to the public in a plain language pamphlet entitled, "Your Appeal Rights: Employment Insurance and Canada Pension Plan Coverage."*

We have also taken steps to gauge how effective these materials are in achieving transparency. A 1998 survey of Canada Pension Plan/Employment Insurance (CPP/EI) appellants indicated that most (80 percent) felt they had enough information to file an appeal and were generally satisfied with the explanation of the CPP/EI appeal process.

Government regulatory policy requires that a problem of risk exists sufficient to justify federal intervention. We feel that between the provisions of the Employment Insurance Act *and the information provided in CCRA publications, the workings of the rulings and appeals processes are explained in a clear and transparent manner. Therefore we believe that the development of regulations is not justified.*

Human Resources Development Canada's response: *The Department shares the Office of the Auditor General's concern and continues to take action including interaction with the CCRA at local, regional and national levels to address potential fraud and abuse within the particular industries in lower mainland British Columbia.*

A recent Tax Court of Canada decision and the subsequent Department of Justice legal opinion no longer permit us to do joint interviews with the CCRA in order to maintain the independence of both departments in this process. However, HRDC and the CCRA are committed to improving existing methods and implementing initiatives to deal adequately with this particular industry and are collaborating to that end.

HRDC has completed a number of recent meetings and a workshop with the CCRA to discuss the issues pertaining to insurability rulings, large investigations and improving the working relationship between HRDC and the CCRA. The CCRA has created the position of Complex Case and Technical Review Officer. The Officer is trained in investigative activity and will be more able to deal with matters concerning major employment insurance investigation cases. Joint training exercises between HRDC investigators and the new CCRA Complex Case and Technical Review Officer are being planned. This will further facilitate improvements in the way the two groups work together. We have agreed to promote *secondments between the two groups to ensure that personnel are familiar with both organizations and improve the interactive working relationships.*

These initiatives are already included in HRDC's Action Plan and others will be added to ensure that suspected abuse and fraud are properly dealt with.

Audit Team

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Human Resources Development Canada and the Canada Employment Insurance Commission

Lack of clarity on basis used in setting Employment Insurance premium rates

The Canada Employment Insurance Commission has not explained how it sets premium rates under the **Employment Insurance Act*****. These rates have resulted in the rise of the Employment Insurance Account's accumulated surplus. Although it is notional in nature, the accumulated surplus balance has increased by $7.2 billion for the year to $28.2 billion at 31 March 2000. This is almost twice the maximum amount considered sufficient by the Chief Actuary of Human Resources Development Canada as a reserve for the Account. An appropriate explanation is necessary to clarify, for Parliament and the public, how the Commission exercised its discretion in setting premium rates under the*** **Employment Insurance Act** ***and to ensure that the intent of the Act is observed.***

Background

34.50 The *Employment Insurance Act* requires the Canada Employment Insurance Commission to set Employment Insurance (EI) premium rates at a level that it considers will, to the extent possible, ensure enough revenue to pay Employment Insurance program costs while maintaining relatively stable rates over a business cycle. The rate must be approved by the Governor in Council at the recommendation of the ministers of Human Resources Development and of Finance.

34.51 In his 2000 report, the Chief Actuary of Human Resources Development Canada has estimated that a reserve of $10 billion to $15 billion (attained just before an economic downturn) should be sufficient to guarantee the stability of EI premium rates over a business cycle. In the meantime, the Employment Insurance Account's accumulated surplus has grown to $28.2 billion, almost twice the maximum amount considered sufficient by the Chief Actuary.

34.52 The report of the Auditor General on the financial statements of the Employment Insurance Account for the years ended 31 March 1999 and 31 March 2000 as well as the Auditor General's November 1999 Report to Parliament drew attention to the size of the accumulated surplus, its rate of growth and the lack of disclosure of factors that were considered in determining an appropriate level of reserve. The Account's accumulated surplus amounted to $28.2 billion at 31 March 2000.

Issues

34.53 The Employment Insurance Account records the revenues and expenses of the EI program. Amounts received under the Act are deposited to the government's Consolidated Revenue Fund; EI program costs are paid out of that Fund. The EI Account is part of the Consolidated Revenue Fund and any accumulated surplus or deficit is notional in nature. Since 1986, the Account has been consolidated in the Summary Financial Statements of Canada to conform with the accounting standards of the Canadian Institute of Chartered Accountants (CICA).

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[illegible]

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34.54 The balance of the Account's accumulated surplus or deficit should serve as an important factor in setting EI premium rates, because it helps determine the level of premiums necessary to provide stable rate levels over time. Yet, the 1999 premium rates were set at a level higher than that estimated as necessary by the Chief Actuary, contributing to a continued rise in the level of reserve.

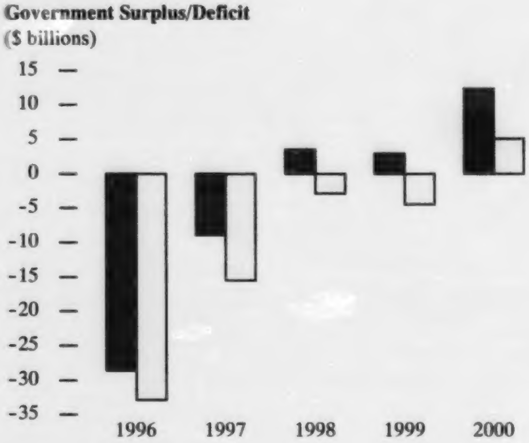
34.55 Moreover, the EI Account's operating surplus has a direct impact on the government's annual surplus. The Account's operating surplus, in effect, provides a source of revenue and cash flow for the government and helps reduce its net debt. Without the EI Account surplus and accumulated surplus at 31 March 2000, the government's annual surplus would have been $7.2 billion lower and its net debt $28.2 billion higher. Exhibit 34.1 shows the impact of the EI Account surplus and accumulated surplus on the government's surplus or deficit and net debt since 1996.

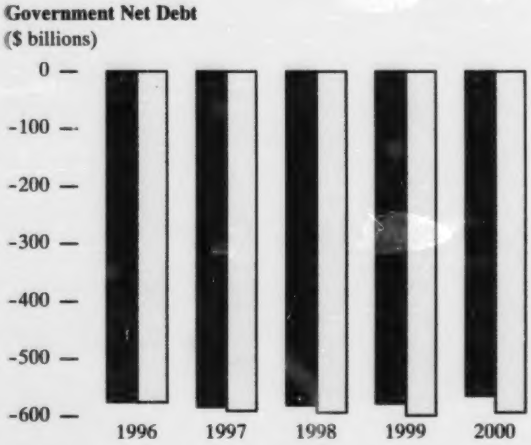
34.56 The 2000 EI premium rate for employees was set at $2.40 per $100 of insurable earnings; the employer rate was set at $3.36. The Chief Actuary estimated that employee premium rates set between $1.70 and $2.20 would meet the long-term costs of the Employment Insurance

The Employment Insurance Account's operating surplus, in effect, provides a source of revenue and cash flow for the government and helps reduce its net debt.

Exhibit 34.1

Impact of Employment Insurance Account Surplus and Accumulated Surplus





Source: Employment Insurance Account and the Public Accounts of Canada program. In its planning documents, Human Resources Development Canada forecast that the accumulated surplus would reach $34.6 billion by 31 March 2001. As at 31 August 2000, the unaudited balance of the Account's accumulated surplus was $32.4 billion, a five-month increase of $4.2 billion.

34.57 The Standing Committee on Public Accounts recommended in February 2000 that the government disclose to Parliament the factors used to set EI premium rates and to determine the appropriate level of reserve for the EI Account. In July 2000, the government responded that it would examine a Standing Committee on Finance recommendation that set out an approach to set EI premium rates. On 28 September 2000, the government introduced Bill C-44 that set the 2001 EI premium rate for employees at $2.25. The Bill provides an interim measure for setting EI premium rates while the government reviews the rate-setting process. The review is expected to be completed by 2003.

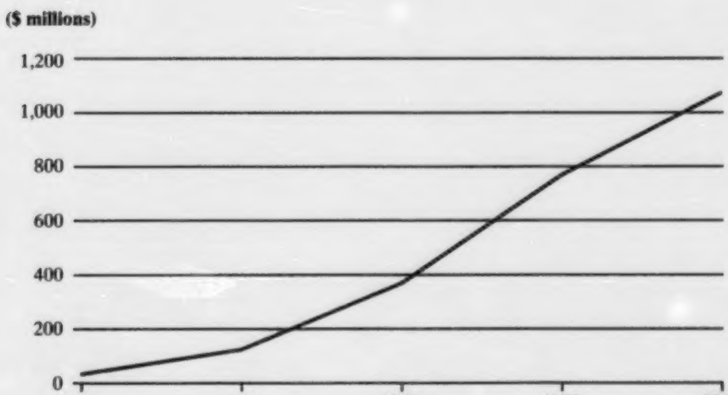
34.58 The government and the Canada Employment Insurance Commission need to provide Parliament and the public with a better understanding of how Employment Insurance premium rates under the *Employment Insurance Act* are set. This would also help ensure that the intent of the Act for setting EI premium rates is being observed.

34.59 Interest is calculated on the balance of the Account and the amount of such interest revenue in recent years has been significant. For example, interest revenue for 1999-2000 totalled $1.1 billion or approximately 15 percent of the Account's operating surplus. As at 31 March 2000, interest revenue accounted for $2.4 billion of the $28.2 billion in accumulated surplus of the EI Account. Exhibit 34.2 shows the growth of interest revenue over the past five years. Since it increases the Account's accumulated surplus, interest revenue is another factor that impacts the setting of EI premium rates.

34.60 Due to the size of the Account's accumulated surplus, a change in interest rate can have a significant impact on the Account's interest revenue. The Act provides for the payment of interest of the balance in the EI Account but does not prescribe a method to establish the interest rate. The interest rate for the Account is calculated monthly at 90 percent of the previous month's average three-month Treasury bill rate.

Exhibit 34.2

Interest Revenue Growth for the Employment Insurance Account



* For a 15-month period

Source: Employment Insurance Account

34.61 The method of calculating EI interest rate has not changed since its inception in 1970. Since then, there have been major revisions to the Act, including the most recent reform in 1996. In view of its impact on the Account's surplus, the present method of calculating EI interest rate needs to be reviewed to ensure that it remains appropriate. In addition, the government needs to explain to Parliament and the public the reasons for choosing its method of calculation.

Conclusion

34.62 The Employment Insurance program is one of the government's largest and most visible programs. It is important that the government and the Canada Employment Insurance Commission clarify and disclose the way the *Employment Insurance Act* is interpreted with regard to setting premium rates. The government also needs to disclose how it establishes the Employment Insurance Account's interest rate.

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Federal Investment in Big Science Projects

The Sudbury Neutrino Observatory

Scientific projects that rely on large, expensive facilities, or on large groups of people working toward a common goal are often called Big Science. The federal government has been involved in Big Science projects and will likely continue to fund them in Canada and abroad.

This audit looked at the decision-making and reporting processes used by federal entities in a particular Big Science project — the Sudbury Neutrino Observatory (SNO). The observatory is used to detect interactions between solar neutrinos and matter. It was built inside a 10-storey cavity located two kilometres below ground in an operating mine near Sudbury, Ontario.

We found that when funding approval was sought, Cabinet was not fully informed of the likely cost of the SNO to the federal government.

We identified some lessons learned for improving decision making in the federal government for Big Science projects:

- ***ensure that complete and accurate information is presented so that government can properly assess the costs and benefits of projects;***
- ***establish an inter-departmental framework for handling projects; and***
- ***improve accountability for federal investments in projects.***

Background

Previous science and technology audits

34.63 This audit is the latest in a series of reports by our Office on the federal government's science and technology activities. These reports have promoted a mission-driven, results-based approach to federal spending on science and technology.

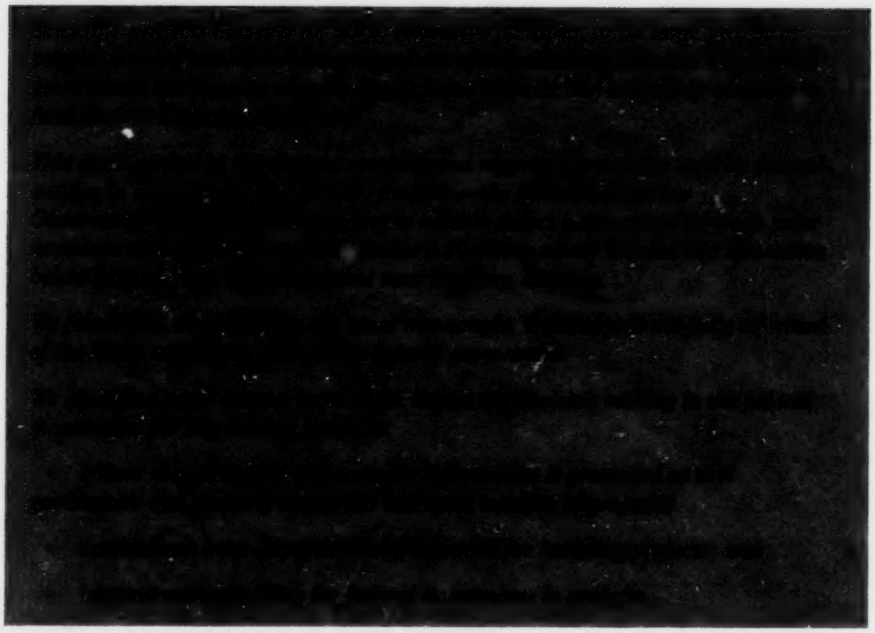
34.64 In 1994, we audited the science and technology activities of several departments and agencies and identified a number of concerns relating to management of research. At a government-wide level we identified the need for clear priorities, direction and performance expectations; effective co-ordination and oversight; leadership that transcends departmental mandates; and better information for Parliament and the public on science and technology activities and performance. At a department-wide level, we identified, among other things, the need for goals that focus more on results, and better project selection, review and management practices.

34.65 In 1996, partly in response to our audits, the federal government released its Science and Technology for the New Century: A Federal Strategy (S&T Strategy). In 1998, we reviewed the government's progress in implementing the S&T Strategy. We reported that the establishment of elements required to improve the management of federal science and technology activities was not proceeding as intended. We identified three areas requiring special attention:

- planning, setting priorities and performance reporting for results-based research;
- use of external peer review to ensure scientific excellence; and

Federal Investment in Big Science Projects

The Sudbury Neutrino Observatory



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- planning, setting priorities and performance reporting for results-based research;
- use of external peer review to ensure scientific excellence; and

- development of partnership strategies inside and outside government.

34.66 In November 1999, we identified a framework of attributes that can be used to assess how well research organizations are managed. With guidance from the S&T Strategy and other sources, we created a set of ideal outcomes for research management. The attributes emphasize the importance of managing research for results.

What is Big Science?

34.67 Scientific projects that rely on large facilities, or on large groups of people working toward a common goal, are often called Big Science. Big Science projects usually involve international partnerships due to their high costs.

34.68 Canada's involvement in Big Science projects that require large facilities is mainly in two fields: astronomy and physics. Exhibit 34.3 shows some past and current Big Science projects with which the federal government has been involved.

34.69 Big Science projects continue to seek funding. The most recent project is the Canadian Light Source, which produces an extremely bright light that studies matter at the atomic scale somewhat like a giant microscope. The interaction between various wavelengths

Scientific projects that rely on large facilities, or on large groups of people working toward a common goal, are often called Big Science.

Exhibit 34.3

Some Past and Current Big Science Projects Requiring Large Facilities With Which the Federal Government Has Been Involved

Field	Projects and Location	Description	Status
Astronomy and Solar System Exploration	Canada-France-Hawaii Optical Telescope (Hawaii)	A 3.6-metre telescope that explores the universe.	In operation since 1978.
	Gemini Twin Optical Telescopes (Hawaii, Chile)	An optical-infrared astronomical facility with two eight-metre telescopes that explore the universe.	Construction to be completed in 2000-01.
	James Clerk Maxwell Radio Telescope (Hawaii)	A radio telescope, 15 meters in diameter that searches and analyses naturally-emitted microwaves in the universe.	In operation since 1987.
Fusion	Tokamak (Varennes, Quebec)	A fusion reactor that researches fusion technology for the generation of electricity.	Closed in 1998 for lack of operation funding.
Fission	National Research Universal (NRU) Reactor, Atomic Energy of Canada Limited (Chalk River, Ontario)	A high-flux reactor that researches fuels and materials for the CANDU reactor, and basic materials using neutrons.	In operation until 2005.
Materials Research	Canadian Light Source (Saskatoon, Saskatchewan)	A giant high-precision microscope, producing an extremely bright light, that studies matter at the atomic scale.	Funding granted in 1999.
Subatomic Physics	Tri-University Meson Facility (TRIUMF) - (Vancouver, British Columbia)	A cyclotron that studies the structure of matter by accelerating ions up to 75 percent of the speed of light. It detects sub-atomic particles and measures their fundamental properties.	In operation since 1974.
	Sudbury Neutrino Observatory (SNO) - (Sudbury, Ontario)	For a description, see paragraphs 34.85 to 34.89.	In operation since 1998.

Source: Compiled by the Office of the Auditor General of light and atoms in all types of matter will be used to study the structure of complex molecules, as well as track the presence and chemistry of particular atoms. The Canadian Light Source is being built in Saskatoon, Saskatchewan. Its capital costs are currently estimated at $173 million. Exhibit 34.4 shows the planned funding sources for the Canadian Light Source.

34.70 Two other Big Science projects seeking funding are the Canadian Neutron Facility for Materials Research and Iter, an international fusion energy research and development centre.

34.71 The Canadian Neutron Facility for Materials Research is a joint proposal of Atomic Energy of Canada Limited and National Research Council Canada. The facility would house a nuclear reactor that generates beams of neutrons to help understand the properties of advanced materials, such as polymers, metals, ceramics, high-temperature superconductors and biological materials. The cost of the reactor and program facilities is currently estimated at $388 million.

34.72 Iter, a collaboration among several countries, is seeking to build a facility that researches fusion energy. Iter Canada, a not-for-profit consortium of private sector, labour and government organizations, was created to supply Canadian expertise to the international design effort. It is also promoting Canada's bid to host the Iter facility. An international competition will select a host country in 2001-02. It is estimated that building costs will be between $6 billion and $10 billion over 8 to 10 years and operating costs will be $6 billion over 20 years. The Canadian contribution to the construction costs is currently estimated at $1.5 billion in cash and in kind.

Exhibit 34.4

Planned Funding Sources – Canadian Light Source

Funding Source	Amount ($ millions)
Canada Foundation for Innovation	56.4
Federal departments (including Western Economic Diversification Canada, National Research Council Canada, Natural Resources Canada)	28.3
Other (including the Government of Saskatchewan, Canadian universities, the City of Saskatoon, SaskPower Corp.)	56.2
In-kind contributions	32.6
Total	**173.5**

Attempts to manage federal involvement in Big Science

34.73 There have been discussions on how to manage federal support for Big Science for many years. Except for a brief period in 1990-91 when the Interdepartmental Committee for Big Science existed, the government has not had a structure to manage the approval, implementation and reporting of Big Science projects involving several departments and agencies.

34.74 In 1989, under the auspices of the National Advisory Board on Science and Technology, the committee on Big Science noted that if Canada was to continue its technological development among industrialized nations, it needed to invest in Big Science. The question was not whether the federal government should invest in Big Science, but rather how much it should invest and in what areas.

34.75 The committee concluded that because Big Science projects are expensive, Canada must choose its investments carefully. It was also concerned about Canada's ability to make appropriate investments in Big Science.

> A common characteristic of Big Science projects is that they are too large to be handled within the budgets of our established scientific funding agencies, i.e., federal departments, institutes and granting councils. Thus,

> these bodies cannot approve the programs and this has led to the situation where Big Science projects do not have a forum to arbitrate priorities and make the decision on whether or not they will go ahead.

34.76 The committee added that the financial commitments required for Big Science projects and the follow-on funding for operational costs make it an urgent issue for government to resolve.

34.77 The committee made a series of recommendations on handling Big Science proposals in Canada. It noted:

> ...the problem is not just a matter of selecting between proposals, it is also an issue of providing leadership — leadership to stimulate and shape proposals that, when implemented, will be key steps toward realizing our vision of Canada.

The committee recommended that:

> ...an organization must be charged with the task of formulating Canada's scientific priorities and providing leadership by setting the framework for selection of all major federally funded science and technology initiatives...currently...the various line departments can commit expenditures to major projects that, while individually deserving, may be of lower priority than the needs of Canada in other areas. These decisions must be made in the context of Canada's total needs and opportunities.

34.78 Subsequently, in 1990, the Interdepartmental Committee for Big Science was created to provide a forum to review Big Science projects, establish the policy context and priorities, and provide for funding and participation recommendations to Ministers for subsequent consideration by Cabinet. After a little more than a year, the Committee stopped meeting.

34.79 In its 1996 S&T Strategy, the federal government recognized the need for new institutions and mechanisms to improve the management of its science and technology investments. The S&T Strategy conveyed the government's intention to:

- improve the co-ordination of its science and technology activities among federal departments and agencies;
- increase collaboration on major crosscutting issues; and
- put in place a systematic, government-wide co-ordination mechanism so that all players are represented.

The measures were intended to create synergies and efficiencies in the government's overall science and technology effort.

There have been discussions on how to manage federal support for Big Science for many years.

34.80 In 1998, the government created the Council of Science and Technology Advisors. It is chaired by the Secretary of State for Science, Research and Development and comprises representatives from the advisory committees of federal science-based departments and agencies. The Council, when asked by the government, examines and advises on science and technology issues that meet one or more of the following criteria:

- require government-wide strategic attention;
- offer opportunities for interdepartmental co-operation and multidisciplinary collaboration; and
- are important to a number of federal departments and agencies (for example, polar science, enabling technologies and Big Science).

34.81 To date, the Council of Science and Technology Advisors has not examined the issue of Big Science. However, it has studied science advice and the role of government in the performance of science and technology.

34.82 In 1997, the government established the Canada Foundation for

Innovation. It is an independent corporation that provides grants to increase the capability of carrying on high-quality research in Canada. The government has since transferred $1.9 billion to the Foundation. The Foundation's funding of the Canadian Light Source shows that it can participate in Big Science projects (Exhibit 34.4). This further adds to the complexity of managing federal involvement in Big Science.

The Sudbury Neutrino Observatory is located two kilometres below ground in Inco's operating mine — the Creighton Mine, near Sudbury, Ontario.

Scope

34.83 As part of this audit, we reviewed the government's involvement in the Sudbury Neutrino Observatory (SNO) to determine if there were any lessons to be learned for improving federal decision making for Big Science projects. Our audit objective was to determine if the departments and agencies involved with the project had properly disclosed to Cabinet and Parliament the full costs and likely benefits of the SNO.

The Sudbury Neutrino Observatory is located two kilometres below ground, in Inco's Creighton Mine near Sudbury, Ontario. The detector contains 1,000 tonnes of heavy water in an acrylic vessel. It is designed to detect neutrinos produced by fusion reactions in the sun (see paragraphs 34.85 to 34.89).

34.84 We did not look beyond the decision-making and reporting processes used by federal entities. For example, we did not audit the construction and operation of the facility or the quality of the science carried out at the SNO. Nevertheless, we noted that various international and national scientific bodies have endorsed the project.

Issues

The Sudbury Neutrino Observatory

34.85 The Sudbury Neutrino Observatory (SNO) is a collaborative project in particle physics involving scientists from laboratories and universities in Canada, the United States and the United Kingdom. Canada leads the international team, and its project director is a senior physicist at Queen's University. The observatory is located two kilometres below ground in Inco's operating mine — the Creighton Mine, near Sudbury, Ontario.

34.86 Fusion reactions in the sun produce vast amounts of neutrinos that interact only rarely with matter. For many years, neutrinos were assumed to be massless particles. The SNO is designed to detect the few interactions between solar neutrinos and matter and help determine if neutrinos have a mass. The SNO is in a unique position to help scientists understand the nuclear reactions that generate energy in the sun and the stars, as well as the fundamental properties of neutrinos.

34.87 The SNO was built inside a 10-storey cavity filled with water in the Creighton Mine. Suspended in the water is the heart of the detector, an acrylic sphere 12 metres in diameter containing 1,000 tonnes of heavy water and surrounded by thousands of light sensors. Neutrinos interact with heavy water molecules to produce particles and these interactions generate flashes of light that allow detailed and unique studies of solar neutrinos.

34.88 Locating the observatory inside the Creighton Mine provided natural shielding from unwanted cosmic radiation, but posed major engineering challenges. Construction began in 1990 and was to be completed in 1995. However, due to many problems, it was only completed in 1998. The first neutrinos were detected in 1999.

34.89 Other neutrino experiments exist around the world, but as they do not use heavy water, they cannot detect the different types of neutrinos. Canada has large stocks of heavy water used in the CANDU reactors. The SNO was made possible through the loan of 1,000 tonnes of heavy water (worth $300 million) from Atomic Energy of Canada Limited.

Information to Cabinet was incomplete

34.90 **Funding history.** Between 1986 and 1989, the Natural Sciences and Engineering Research Council of Canada (NSERC) and National Research Council Canada (NRC) provided more than $2 million to conduct preliminary feasibility studies for construction of the SNO.

34.91 In 1989, NSERC committed $16.65 million to construct the observatory. In 1990, Cabinet provided for additional funding through the NRC and Industry, Science and Technology Canada (now Industry Canada). The briefing material submitted to Cabinet stated that the total federal support for the facility would be $34.85 million, including $18.20 million in contributions from the NRC and Industry, Science and Technology Canada (See Exhibit 34.5). Total construction costs were estimated at about $48 million.

34.92 By 1993, it was clear that construction would not be completed within the original budget. Consulting and Audit Canada was asked to review the project, with a view to providing cost estimates for completion of the construction phase. It estimated that, at a minimum, $16.4 million of additional funding was needed. According to the briefing material presented to Cabinet, NSERC provided $3 million and Cabinet allocated $12.4 million for a total of $15.4 million in additional funding. In 1993-94, NSERC also provided another $1.3 million in grants.

34.93 In 1996, the project again faced a variety of difficulties that resulted in cost overruns and construction delays. In February, Cabinet approved an additional $750,000 through Industry Canada, which

The observatory is designed to detect the few interactions between solar neutrinos and matter and help determine if neutrinos have a mass.

Exhibit 34.5

Federal Funding for Construction of the Sudbury Neutrino Observatory

($ millions)

Year	Industry Science and Technology Canada	National Research Council Canada	Natural Sciences and Engineering Research Council of Canada	Total Federal Investment	Estimated Construction Completion Date
1989-1990	9.10	9.10	16.65	34.85	Mid-1993
1993	12.40		4.30	16.70	Mid-1995
1996	.75		0.90	1.65	December 1996
After 1996			1.10	1.10	Completed in 1998
Total	**22.25**	**9.10**	**22.95**	**54.30**	

Source: Compiled by the Office of the Auditor General and information provided by the Natural Sciences and Engineering Research Council of Canada brought federal funding approved through Cabinet to a total of $31.35 million. NSERC awarded an additional $900,000 for construction, which brought its grant funding to $21.85 million.

In the end, the total federal investment for the construction of the observatory was $54.30 million and not $34.85 million.

34.94 In the end, the total federal investment for the construction of the observatory, including NSERC grant funding, was $54.30 million and not $34.85 million. The additional $19.44 million represents a 56 percent increase in the federal government's funding. Other contributions came from the Province of Ontario ($9.9 million), the United States ($14.1 million) and the United Kingdom ($0.7 million).

34.95 Construction cost estimates were incomplete. While decisions on federal support for Big Science are ultimately the responsibility of ministers, federal agencies play an essential role ensuring that informed choices are made. For the decision-making system to work properly, proposals and cost estimates need to be reviewed rigorously and challenged by senior managers. This would ensure that Cabinet has a clear understanding of the likely risks and results associated with Big Science projects.

We noted two important cost overrun factors — inflation and contingency allowances — that should have been better assessed and presented in the Cabinet briefing material.

34.96 We found that decision-making information provided to Cabinet for the SNO focussed mainly on the project as a unique scientific opportunity and did not provide complete cost and risk information.

34.97 In 1993, Consulting and Audit Canada noted that cost overruns were a result of:

- important changes in the project's scope and design (the changes used up a significant portion of the contingency allowance);
- inflation over the construction period;
- extra time required for excavation;
- temporary shutdowns of the Creighton Mine by Inco;
- exchange rate fluctuations;
- creation of the Goods and Services Tax; and
- unanticipated changes in the scale of participation of Atomic Energy of Canada Limited, National Research Council Canada and Inco. (The responsibility for the project was transferred to a private firm. Consulting and Audit Canada estimated that the transfer costs were $3.7 million or 19.23 percent of the cost overruns.)

34.98 We noted two important cost overrun factors — inflation and contingency allowances — that should have been better assessed and presented in the Cabinet briefing material.

34.99 Inflation. The original construction proposal provided to departments by the applicants included two cost estimates — one with inflation costs and one without. The cost estimate used in the briefing material submitted to Cabinet in 1989 excluded inflation costs. In 1993, Consulting and Audit Canada reported that inflation accounted for $4.5 million (21.63 percent) of the cost increase to that point. We found no rationale for the use of the lower cost estimate in 1989 in the Cabinet briefing material.

34.100 Contingency allowance. Big Science projects are by their very nature complex and high risk. They push the boundaries of knowledge and often rely on facilities and apparatus that have never been built before. It is crucial that, at the time of approval, all expected costs and potential risks be discussed and sufficient contingencies considered.

34.101 A contingency allowance was included in the briefing material submitted to Cabinet in 1989. However, it did not reflect some of the potential risks associated with elements of the observatory that had never been built before (for example, the engineering challenges of the acrylic sphere). The briefing material submitted to Cabinet did not explain that construction costs could be higher than projected.

34.102 In 1993, Consulting and Audit Canada recommended that an additional $16.4 million be allocated to complete construction but noted:

> Total Canadian cost of $54.5 million, including a contingency allowance of $5.1 million, may be considered a reasonable forecast….There are still elements of risk which cannot be accurately quantified, and in a project of this complexity, *the contingency allowance may be at the bottom of the scale.*
>
> No provision has been made for "force majeure" events that could materially affect project completion and costs.

34.103 When Cabinet was asked to approve additional funding in 1993, it was not told about this limitation on Consulting and Audit Canada's recommendations. In fact, the briefing material submitted to Cabinet stated that the additional $16.4 million in funding was the maximum amount required to complete construction.

34.104 Cabinet only approved $15.4 million to complete construction. The amount was inadequate and, in 1996, a further $1.65 million was required to complete construction.

34.105 In our view, Cabinet was not provided with the necessary information to make informed decisions on funding for the observatory. As a result, when the government approved funding, it did not know how much the observatory could cost Canadian taxpayers. The problem was not in the information provided to the departments, but rather what the departments provided to Cabinet.

34.106 Operating and maintenance costs estimates were clearly presented. Once construction was completed, the SNO required funding to cover operating costs for the detector and maintenance costs for insurance fees, energy bills, etc. Most of the costs were covered by NSERC grants, which do not need government approval. We found that the operating and maintenance costs had been clearly presented to Cabinet when the project was first approved in 1989.

Total amount of federal support was not clearly presented to Cabinet

34.107 We expected that Cabinet would be fully informed about all funding sources for construction, especially federal sources, as well as the total cost to the government.

34.108 Construction costs. More than $54.30 million in federal funds was provided for the construction of the observatory. Of this amount, $31.35 million required Cabinet approval, and the remaining $22.95 million was provided by the Natural Sciences and Engineering Research Council of Canada (NSERC). The briefing material provided to Cabinet refers to only $20.55 million invested by NSERC in the SNO, although the actual amount was $21.85 million. In addition, another $1.1 million was awarded by NSERC after the final Cabinet decision in 1996.

In our view, Cabinet was not provided with the necessary information to make informed decisions on funding for the observatory.

34.109 Non-compliance with government's Policy on Transfer Payments. A 1987 Treasury Board circular on grants, contributions and other transfer payments stated that assistance to a recipient's capital project cannot be in the form of a grant. A capital project is any project intended to acquire (through construction, purchase or lease) or improve a capital asset. We found that, contrary to Treasury Board rules, the SNO received $22.95 million in grants from NSERC for construction.

34.110 The 1987 circular also stated that payment of funds should not be made earlier than required, as early pay-outs result in interest costs on the public debt.

We found that some grant payments were made earlier than required, resulting in interest costs of more than $2 million. Between 1989 and 1991, NSERC paid over $5 million toward the project, yet the money was not used until 1992-93.

Cabinet was informed about the project's potential scientific and economic benefits

34.111 The advancement of scientific knowledge is usually the prime benefit for Big Science projects. Accordingly, one would expect the economic impact to be modest and limited to regional economic benefits flowing from the construction and/or maintenance of Big Science facilities.

34.112 In our view, Cabinet was given a realistic picture of the potential scientific and economic benefits of the project. The scientific merits of the project were clearly emphasized, and the regional economic impacts were appropriately described as relatively small.

34.113 Also, the scientific complexity of Big Science projects means that decision makers should be informed about the views of national and international scientific bodies and peer-review committees on the project. In the case of the SNO, such information was provided to decision makers.

Improved reporting of project's total cost and benefits is needed for Parliament and the public

34.114 The total cost to the federal government of the SNO project has not been reported to Parliament. The Report on Plans and Priorities and the Performance Report contain each federal entity's expenditures but do not include an overview of the total federal involvement in Big Science projects.

Conclusion

34.115 The federal government will likely continue to fund Big Science projects in Canada and abroad. To improve the assessment of these projects, we believe that the government needs to consider the following issues.

A framework for handling Big Science proposals is needed

34.116 In the 1996 S&T Strategy, the government acknowledged the need to put in place a government-wide co-ordination mechanism to create synergies and efficiencies in Canada's overall science and technology effort. In 1998, it created the Council of Science and Technology Advisors to inform government on science and technology issues common to federal science-based departments and agencies. The government specifically identified Big Science as a common issue that could benefit from external advice.

34.117 The demand for funding of Big Science facilities in Canada and abroad continues to grow. Given the limited resources available for science and technology projects in Canada, such large investments must only be made with full knowledge of the overall impact on the science and technology community. The government's new science and technology management structure provides a mechanism to ensure that Big Science proposals are no longer treated on an ad hoc basis, but rather are assessed thoroughly and in the context of Canada's science and technology priorities. In our view, the Council of Science and Technology Advisors should be asked to continue the work, started by the National Advisory Board on Science and Technology, of developing a framework to handle Big Science proposals. Such a framework would ensure that decision makers have the necessary information on costs, risks, follow-on funding commitments, and impact on the community. Also, it would provide links to national science and technology priorities as well as to activities of the Canada Foundation for Innovation and other funding sources.

Complete and accurate information is required for decision making

34.118 Big Science proposals submitted for Cabinet approval must be as complete and accurate as possible. In this regard, decision makers should be well informed about:

- The unique scientific nature of the project, which can push the boundaries of knowledge.
- The many uncertainties and risks associated with the project. These should be assessed thoroughly to see whether they are internal (technological/scientific) or external (inflation, withdrawal of partners, "force majeure" events).
- All project-cycle costs from construction to implementation, ongoing operation and maintenance, research and development, and decommissioning.
- The financial involvement of all federal organizations and whether the funding needs government approval.
- The expected scientific benefits based on adequate analysis, including valid peer-review assessments.
- The expected economic benefits based on adequate analysis, recognizing that the potential for commercial development may be modest.
- Procedures for evaluating a project's results and benefits using measures that reflect an appropriate mix of outcomes and perspectives (for example, scientific accomplishments and economic benefits).

34.119 Furthermore, reviews should be conducted to reassess costs after key steps are completed, as follow-up to initial cost estimates. Cabinet should be informed of this process when considering initial funding.

Improved accountability for federal investments in Big Science projects

34.120 The S&T Strategy recognizes that good co-ordination of all parties is necessary to protect federal interests and attain federal objectives in collaborative projects. The S&T Strategy also recognizes the need for greater accountability in the federal science and technology effort. Effective reporting is an important component of accountability. Without good reporting, it is very difficult, if not impossible, for Parliament and Canadians to obtain very basic information.

Big Science proposals submitted for Cabinet approval must be as complete and accurate as possible.

34.121 For Big Science projects, the government should ensure that:

- A single federal authority is established for accountability purposes.
- The identified authority reports annually to Parliament on the project's status, on behalf of all the federal participants.
- Procedures are in place to manage federally funded projects that have non-federal partners, whether from the private sector, universities, foreign governments or other entities.

Audit Team

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Julie Pelletier

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Appendices

Table of Contents

Page

A *Auditor General Act* A-1

B *Financial Administration Act* - **Extracts from Part X** B-1

C Reports of the Standing Committee on Public Accounts to the House of Commons
(Second Session of the Thirty-sixth Parliament, 1999-2000)

First Report (15 November 1999) C-1
Second Report (15 November 1999) C-6
Third Report (15 December 1999) C-13
Fourth Report (25 February 2000) C-18
Fifth Report (25 February 2000) C-25
Sixth Report (22 March 2000) C-31
Seventh Report (22 March 2000) C-37
Eighth Report (17 May 2000) C-43
Ninth Report (17 May 2000) C-44
Tenth Report (17 May 2000) C-50
Eleventh Report (8 June 2000) C-57
Twelfth Report (8 June 2000) C-62
Thirteenth Report (8 June 2000) C-68
Fourteenth Report (8 June 2000) C-72

D Report on the Audit of the President of the Treasury Board's Report to Parliament: Tablings in Parliament for Parent Crown Corporations: Annual Reports and Summaries of Corporate Plans and Budgets D-1

E The Costs of Crown Corporation Audits Conducted by the Office of the Auditor General of Canada E-1

APPENDIX A
AUDITOR GENERAL ACT

R.S.C., c. A-17
An Act respecting the Office of the Auditor General of Canada and sustainable development monitoring and reporting
1995, c. 43, s.1.

SHORT TITLE

Short title

1. This Act may be cited as the *Auditor General Act*. 1976-77, c. 34, s.1.

INTERPRETATION

Definitions

2. In this Act,

"appropriate Minister"

"appropriate Minister" has the meaning assigned by section 2 of the *Financial Administration Act*;

"Auditor General"

"Auditor General" means the Auditor General of Canada appointed pursuant to subsection 3(1);

"category I department"

"category I department" means

(a) any department named in Schedule I to the *Financial Administration Act*,

(b) any department in respect of which a direction has been made under subsection 24(3), and

(c) any department, as defined in the *Financial Administration Act*, set out in the schedule;

"Commissioner"

"Commissioner" means the Commissioner of the Environment and Sustainable Development appointed under subsection 15.1(1);

"Crown corporation"

"Crown corporation" has the meaning assigned to that expression by section 83 of the *Financial Administration Act*;

"department"

"department" has the meaning assigned to that term by section 2 of the *Financial Administration Act*;

"registrar"

"registrar" means the Bank of Canada and a registrar appointed under Part IV of the *Financial Administration Act*;

"sustainable development"

"sustainable development" means development that meets the needs of the present without compromising the ability of future generations to meet their own needs;

"sustainable development strategy"

"sustainable development strategy", with respect to a category I department, means the department's objectives, and plans of action, to further sustainable development. 1976-77, c. 34, s. 2; 1984, c. 31, s. 14; 1995, c. 43, s. 2.

AUDITOR GENERAL OF CANADA

Appointment and tenure of office

3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

Idem

(2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

Re-appointment

(3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Vacancy

(4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General. 1976-77, c. 34, s. 3.

Salary

4. (1) The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.

Pension benefits

(2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him. 1976-77, c. 34, s. 4; 1980-81-82-83, c. 50, s. 23, c. 55, s. 1.

DUTIES

Examination

5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act. 1976-77, c. 34, s. 5.

Idem

6. The Auditor General shall examine the several financial statements required by section 64 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have. 1976-77, c. 34, s. 6; 1980-81-82-83, c. 170, s. 25.

Annual and additional reports to the House of Commons

7. (1) The Auditor General shall report annually to the House of Commons and may make, in addition to any special report made under subsection 8(1) or 19(2) and the Commissioner's report under subsection 23(2), not more than three additional reports in any year to the House of Commons

(a) on the work of his office; and,

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Idem

(2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that

(a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;

(b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;

(c) money has been expended other than for purposes for which it was appropriated by Parliament;

(d) money has been expended without due regard to economy or efficiency;

(e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented; or

(f) money has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

Submission of annual report to Speaker and tabling in the House of Commons

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before December 31 in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it.

Notice of additional reports to Speaker and tabling in the House of Commons

(4) Where the Auditor General proposes to make an additional report under subsection (1), the Auditor General shall send written notice to the Speaker of the House of Commons of the subject-matter of the proposed report.

Submission of additional reports to Speaker and tabling in the House of Commons

(5) Each additional report of the Auditor General to the House of Commons made under subsection (1) shall be submitted to the House of Commons on the expiration of thirty days after the notice is sent pursuant to subsection (4) or any longer period that is specified in the notice and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it. 1976-77, c. 34, s. 7; 1994, c. 32, s. 1 and 2; 1995, c. 43, s. 3.

Special report to the House of Commons

8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in the opinion of the Auditor General, should not be deferred until the presentation of the next report under subsection 7(1).

Submission of reports to Speaker and tabling in the House of Commons

(2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 19(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting. 1976-77, c. 34, s. 8; 1994, c. 32, s. 3.

Idem

9. The Auditor General shall

(a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require, and

(b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act*,

and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities. 1976-77, c. 34, s. 9.

Improper retention of public money

10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board. 1976-77, c. 34, s.10.

Inquiry and report

11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought. 1976-77, c. 34, s. 11.

Advisory powers

12. The Auditor General may advise appropriate officers and employees in the public service of Canada of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board. 1976-77, c. 34, s. 12.

ACCESS TO INFORMATION

Access to information

13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the public service of Canada such information, reports and explanations as he deems necessary for that purpose.

Stationing of officers in departments

(2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Oath of secrecy

(3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries

(4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*. 1976-77, c. 34, s.13.

Reliance on audit reports of Crown corporations

14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Auditor General may request information

(2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the Governor in Council

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada. 1976-77, c. 34, s. 14.

STAFF OF THE AUDITOR GENERAL

Officers, etc.

15. (1) Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the *Public Service Employment Act.*

Contract for professional services

(2) Subject to any other Act of Parliament or regulations made thereunder, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his office in appropriation Acts, contract for professional services.

Delegation to Auditor General

(3) The Auditor General may exercise and perform, in such manner and subject to such terms and conditions as the Public Service Commission directs, the powers, duties and functions of the Public Service Commission under the *Public Service Employment Act*, other than the powers, duties and functions of the Commission in relation to appeals under section 21 of that Act and inquiries under section 34 of that Act.

Suspension

(4) The Auditor General may suspend from the performance of his duty any person employed in his office. 1976-77, c. 34, s. 15; 1992, c. 54, s. 79.

Appointment of Commissioner

15.1 (1) The Auditor General shall, in accordance with the *Public Service Employment Act*, appoint a senior officer to be called the Commissioner of the Environment and Sustainable Development who shall report directly to the Auditor General.

Commissioner's duties

(2) The Commissioner shall assist the Auditor General in performing the duties of the Auditor General set out in this Act that relate to the environment and sustainable development. 1995, c. 43, s. 4.

Responsibility for personnel management

16. In respect of persons employed in his office, the Auditor General is authorized to exercise the powers and perform the duties and functions of the Treasury Board under the *Financial Administration Act* that relate to personnel management including the determination of terms and conditions of employment and the responsibility for employer and employee relations, within the meaning of paragraph 7(1)(e) and sections 11 to 13 of that Act. 1976-77, c. 34, s.16.

Classification standards

17. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office. 1976-77, c. 34, s. 18.

Delegation

18. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 64 of the *Financial Administration Act* and his reports to the House of Commons under this Act, and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General. 1976-77, c. 34, s. 19.

ESTIMATES

Estimates

19. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

Special report

(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office. 1976-77, c. 34, s. 20.

Appropriation allotments

20. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General. 1976-77, c. 34, s. 21.

AUDIT OF THE OFFICE OF THE AUDITOR GENERAL

Audit of the office of the Auditor General

21. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Submission of reports and tabling

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting. 1976-77, c. 34, s. 22.

SUSTAINABLE DEVELOPMENT

Purpose

21.1 The purpose of the Commissioner is to provide sustainable development monitoring and reporting on the progress of category I departments towards sustainable development, which is a continually evolving concept based on the integration of social, economic and environmental concerns, and which may be achieved by, among other things,

(a) the integration of the environment and the economy;

(b) protecting the health of Canadians;

(c) protecting ecosystems;

(d) meeting international obligations;

(e) promoting equity;

(f) an integrated approach to planning and making decisions that takes into account the environmental and natural resource costs of different economic options and the economic costs of different environmental and natural resource options;

(g) preventing pollution; and

(h) respect for nature and the needs of future generations. 1995, c. 43, s. 5.

Petitions received

22. (1) Where the Auditor General receives a petition in writing from a resident of Canada about an environmental matter in the context of sustainable development that is the responsibility of a category I department, the Auditor General shall make a record of the petition and forward the petition within fifteen days after the day on which it is received to the appropriate Minister for the department.

Acknowledgement to be sent

(2) Within fifteen days after the day on which the Minister receives the petition from the Auditor General, the Minister shall send to the person who made the petition an acknowledgement of receipt of the petition and shall send a copy of the acknowledgement to the Auditor General.

Minister to respond

(3) The Minister shall consider the petition and send to the person who made it a reply that responds to it, and shall send a copy of the reply to the Auditor General, within

(a) one hundred and twenty days after the day on which the Minister receives the petition from the Auditor General; or

(b) any longer time, where the Minister personally, within those one hundred and twenty days, notifies the person who made the petition that it is not possible to reply within those one hundred and twenty days and sends a copy of that notification to the Auditor General.

Multiple petitioners

(4) Where the petition is from more that one person, it is sufficient for the Minister to send the acknowledgement and reply, and the notification, if any, to one or more of the petitioners rather than to all of them. 1995, c. 43, s. 5.

Duty to monitor

23. (1) The Commissioner shall make any examinations and inquiries that the Commissioner considers necessary in order to monitor

(a) the extent to which category I departments have met the objectives, and implemented the plans, set out in their sustainable development strategies laid before the House of Commons under section 24; and

(b) the replies by Ministers required by subsection 22(3).

Commissioner's report

(2) The Commissioner shall, on behalf of the Auditor General, report annually to the House of Commons concerning anything that the Commissioner considers should be brought to the attention of that House in relation to environmental and other aspects of sustainable development, including

(a) the extent to which category I departments have met the objectives, and implemented the plans, set out in their sustainable development strategies laid before that House under section 24;

(b) the number of petitions recorded as required by subsection 22(1), the subject-matter of the petitions and their status; and

(c) the exercising of the authority of the Governor in Council under any of subsections 24(3) to (5).

Submission and tabling of report

(3) The report required by subsection (2) shall be submitted to the Speaker of the House of Commons and shall be laid before that House by the Speaker on any of the next fifteen days on which that House is sitting after the Speaker receives it. 1995, c. 43, s. 5.

Strategies to be tabled

24. (1) The appropriate Minister for each category I department shall cause the department to prepare a sustainable development strategy for the department and shall cause the strategy to be laid before the House of Commons

(a) within two years after this subsection comes into force; or

(b) in the case of a department that becomes a category I department on a day after this subsection comes into force, before the earlier of the second anniversary of that day and a day fixed by the Governor in Council pursuant to subsection (4).

Updated strategies to be tabled

(2) The appropriate Minister for the category I department shall cause the department's sustainable development strategy to be updated at least every three years and shall cause each updated strategy to be laid before the House of Commons on any of the next fifteen days on which that House is sitting after the strategy is updated.

Governor in Council direction

(3) The Governor in Council may, on that recommendation of the appropriate Minister for a department not named in Schedule I to the *Financial Administration Act*, direct that the requirements of subsections (1) and (2) apply in respect of the department.

Date fixed by Governor in Council

(4) On the recommendation of the appropriate Minister for a department that becomes a category I department after this subsection comes into force, the Governor in Council may, for the purpose of subsection (1), fix the day before which the sustainable development strategy of the department shall be laid before the House of Commons.

Regulations

(5) The Governor in Council may, on the recommendation of the Minister of the Environment, make regulations prescribing the form in which sustainable development strategies are to be prepared and the information required to be contained in them. 1995, c. 43, s. 5.

APPENDIX B

FINANCIAL ADMINISTRATION ACT

R.S., c. F-11

Extracts from Part X

CROWN CORPORATIONS

Financial Management

Books and systems

131. (1) Each parent Crown corporation shall cause

(a) books of account and records in relation thereto to be kept, and

(b) financial and management control and information systems and management practices to be maintained,

in respect of itself and each of its wholly-owned subsidiaries, if any.

Idem

(2) The books, records, systems and practices referred to in subsection (1) shall be kept and maintained in such manner as will provide reasonable assurance that

(a) the assets of the corporation and each subsidiary are safeguarded and controlled;

(b) the transactions of the corporation and each subsidiary are in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and

(c) the financial, human and physical resources of the corporation and each subsidiary are managed economically and efficiently and the operations of the corporation and each subsidiary are carried out effectively.

Internal audit

(3) Each parent Crown corporation shall cause internal audits to be conducted, in respect of itself and each of its wholly-owned subsidiaries, if any, to assess compliance with subsections (1) and (2), unless the Governor in Council is of the opinion that the benefits to be derived from those audits do not justify their cost.

Financial statements

(4) Each parent Crown corporation shall cause financial statements to be prepared annually, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with generally accepted accounting principles as supplemented or augmented by regulations made pursuant to subsection (6) if any.

Form of financial statements

(5) The financial statements of a parent Crown corporation and of a wholly-owned subsidiary shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation or subsidiary.

Regulations

(6) The Treasury Board may, for the purposes of subsection (4), make regulations respecting financial statements either generally or in respect of any specified parent Crown corporation or any parent Crown corporation of a specified class, but such regulations shall, in

respect of the preparation of financial statements, only supplement or augment generally accepted accounting principles. 1991, c. 24, s. 41.

Auditor's Reports

Annual auditor's report

132. (1) Each parent Crown corporation shall cause an annual auditor's report to be prepared, in respect of itself and its wholly-owned subsidiaries, if any, in accordance with the regulations, on

(a) the financial statements referred to in section 131 and any revised financial statement referred to in subsection 133(3); and

(b) any quantitative information required to be audited pursuant to subsection (5).

Contents

(2) A report under subsection (1) shall be addressed to the appropriate Minister and shall

(a) include separate statements, whether in the auditor's opinion,

(i) the financial statements are presented fairly in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year,

(ii) the quantitative information is accurate in all material respects and, if applicable, was prepared on a basis consistent with that of the preceding year, and

(iii) the transactions of the corporation and of each subsidiary that have come to his notice in the course of the auditor's examination for the report were in accordance with this Part, the regulations, the charter and by-laws of the corporation or subsidiary and any directive given to the corporation; and

(b) call attention to any other matter falling within the scope of the auditor's examination for the report that, in his opinion, should be brought to the attention of Parliament.

Regulations

(3) The Treasury Board may make regulations prescribing the form and manner in which the report referred to in subsection (1) is to be prepared.

Separate reports

(4) Notwithstanding any other provision of this Part, the auditor of a parent Crown corporation may prepare separate annual auditor's reports on the statements referred to in paragraph (1)(a) and on the information referred to in paragraph (1)(b) if, in the auditor's opinion, separate reports would be more appropriate.

Audit of quantitative information

(5) The Treasury Board may require that any quantitative information required to be included in a parent Crown corporation's annual report pursuant to subsection 150(3) be audited.

Other reports

(6) The auditor of a parent Crown corporation shall prepare such other reports respecting the corporation or any wholly-owned subsidiary of the corporation as the Governor in Council may require.

Examination

(7) An auditor shall make such examination as he considers necessary to enable him to prepare a report under subsection (1) or (6).

Reliance on internal audit

(8) An auditor shall, to the extent he considers practicable, rely on any internal audit of the corporation being audited that is conducted pursuant to subsection 131(3). 1991, c. 24, s. 42.

Errors and omissions

133. (1) A director or officer of a Crown corporation shall forthwith notify the auditor and the audit committee of the corporation, if any, of any error or omission of which the director or officer becomes aware in a financial statement that the auditor or a former auditor has reported on or in a report prepared by the auditor or a former auditor pursuant to section 132.

Idem

(2) Where an auditor or former auditor of a Crown corporation is notified or becomes aware of any error or omission in a financial statement that the auditor or former auditor has reported on or in a report prepared by the auditor or former auditor pursuant to section 132, he shall forthwith notify each director of the corporation of the error or omission if he is of the opinion that the error or omission is material.

Correction

(3) Where an auditor or former auditor of a Crown corporation notifies the directors of an error or omission in a financial statement or report pursuant to subsection (2), the corporation shall prepare a revised financial statement or the auditor or former auditor shall issue a correction to the report, as the case may be, and a copy thereof shall be given to the appropriate Minister. 1984, c. 31, s. 11.

Auditors

Appointment of auditor

134. (1) The auditor of a parent Crown corporation shall be appointed annually by the Governor in Council, after the appropriate Minister has consulted the board of directors of the corporation, and may be removed at any time by the Governor in Council, after the appropriate Minister has consulted the board.

Auditor General

(2) On and after January 1, 1989, the Auditor General of Canada shall be appointed by the Governor in Council as the auditor, or a joint auditor, of each parent Crown corporation named in Part I of Schedule III, unless the Auditor General waives the requirement that he be so appointed.

Idem

(3) Subsections (1) and (2) do not apply in respect of any parent Crown corporation the auditor of which is specified by any other Act of Parliament to be the Auditor General of Canada, but the Auditor General is eligible to be appointed the auditor, or a joint auditor, of a parent Crown corporation pursuant to subsection (1) and section 135 does not apply to him.

Exception

(4) Notwithstanding subsection (1), where the report referred to in subsection 132(1) is to be prepared in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the auditor of the subsidiary, and subsections (6) and sections 135 to 137 apply in respect of that auditor as though the references therein to a parent Crown corporation were references to the subsidiary.

Criteria for appointment

(5) The Governor in Council may make regulations prescribing the criteria to be applied in selecting an auditor for appointment pursuant to subsection (1) or (4).

Re-appointment

(6) An auditor of a parent Crown corporation is eligible for re-appointment on the expiration of his appointment.

Continuation in office

(7) Notwithstanding subsection (1), if an auditor of a parent Crown corporation is not appointed to take office on the expiration of the appointment of an incumbent auditor, the incumbent auditor continues in office until his successor is appointed. 1984, c.31, s.11.

Persons not eligible

135. (1) A person is disqualified from being appointed or re-appointed or continuing as an auditor of a parent Crown corporation pursuant to section 134 if that person is not independent of the corporation, any of its affiliates, or the directors or officers of the corporation or any of its affiliates.

Independence

(2) For the purpose of this section,

(a) independence is a question of fact; and

(b) a person is deemed not to be independent if that person or any of his business partners

(i) is a business partner, director, officer or employee of the parent Crown corporation or any of its affiliates, or a business partner of any director, officer or employee of the corporation or any of its affiliates,

(ii) beneficially owns or controls, directly or indirectly through a trustee, legal representative, agent or other intermediary, a material interest in the shares or debt of the parent Crown corporation or any of its affiliates, or

(iii) has been a receiver, receiver-manager, liquidator or trustee in bankruptcy of the parent Crown corporation or any of its affiliates within two years of his proposed appointment as auditor of the corporation.

Resignation

(3) An auditor of a parent Crown corporation who becomes disqualified under this section shall resign forthwith after becoming aware of his disqualification. 1984, c.31, s.11.

Qualifications preserved

136. Nothing in sections 134 and 135 shall be construed as empowering the appointment, re-appointment or continuation in office as an auditor of a parent Crown corporation of any person who does not meet any qualifications for such appointment, re-appointment or continuation established by any other Act of Parliament. 1984, c. 31, s. 11.

Resignation

137. A resignation of an auditor of a parent Crown corporation becomes effective at the time the corporation receives a written resignation from the auditor or at the time specified in the resignation, whichever is later. 1984, c. 31, s. 11.

Special Examination

Special examination

138. (1) Each parent Crown corporation shall cause a special examination to be carried out in respect of itself and its wholly-owned subsidiaries, if any, to determine if the systems and practices referred to in paragraph 131(1)(b) were, in the period under examination, maintained in a manner that provided reasonable assurance that they met the requirements of paragraphs 131(2)(a) and (c).

Time for examination

(2) A special examination shall be carried out at least once every five years and at such additional times as the Governor in Council, the appropriate Minister or the board of directors of the corporation to be examined may require.

Plan

(3) Before an examiner commences a special examination, he shall survey the systems and practices of the corporation to be examined and submit a plan for the examination, including a statement of the criteria to be applied in the examination, to the audit committee of the corporation, or if there is no audit committee, to the board of directors of the corporation.

Resolution of disagreements

(4) Any disagreement between the examiner and the audit committee or board of directors of a corporation with respect to a plan referred to in subsection (3) may be resolved

(a) in the case of a parent Crown corporation, by the appropriate Minister; and

(b) in the case of a wholly-owned subsidiary, by the parent Crown corporation that wholly owns the subsidiary.

Reliance on internal audit

(5) An examiner shall, to the extent he considers practicable, rely on any internal audit of the corporation being examined conducted pursuant to subsection 131(3). 1984, c.31, s.11.

Report

139. (1) An examiner shall, on completion of the special examination, submit a report on his findings to the board of directors of the corporation examined.

Contents

(2) The report of an examiner under subsection (1) shall include

(a) a statement, whether in the examiner's opinion, with respect to the criteria established pursuant to subsection 138(3), there is reasonable assurance that there are no significant deficiencies in the systems and practices examined; and

(b) a statement of the extent to which the examiner relied on internal audits. 1984, c.31, s.11.

Special report of appropriate Minister

140. Where the examiner of a parent Crown corporation, or a wholly owned subsidiary of a parent Crown corporation, named in Part I of Schedule III is of the opinion that his report under subsection 139(1) contains information that should be brought to the attention of the appropriate Minister, he shall, after consultation with the board of directors of the corporation, or with the board of the subsidiary and corporation, as the case may be, report that information to the Minister and furnish the board or boards with a copy of the report. 1984, c.31, s.11.

Special report to Parliament

141. Where the examiner of a parent Crown corporation, or a wholly-owned subsidiary of a parent Crown corporation, named in Part I of Schedule III of the opinion that his report under subsection 139(1) contains information that should be brought to the attention of Parliament, he shall, after consultation with the appropriate Minister and the board of directors of the corporation, or with the boards of the subsidiary and corporation, as the case may be, prepare a report thereon for inclusion in the next annual report of the corporation and furnish the board or boards, the appropriate Minister and the Auditor General of Canada with copies of the report. 1984, c.31, s.11.

Examiner

142. (1) Subject to subsections (2) and (3), a special examination referred to in section 138 shall be carried out by the auditor of a parent Crown corporation.

Idem

(2) Where, in the opinion of the Governor in Council, a person other than the auditor of a parent Crown corporation should carry out a special examination, the Governor in Council may, after the appropriate Minister has consulted the board of directors of the corporation, appoint an auditor who is qualified for the purpose to carry out the examination in lieu of the

auditor of the corporation and may, after the appropriate Minister has consulted the board, remove that qualified auditor at any time.

Exception

(3) Where a special examination is to be carried out in respect of a wholly-owned subsidiary separately, the board of directors of the parent Crown corporation that wholly owns the subsidiary shall, after consultation with the board of directors of the subsidiary, appoint the qualified auditor who is to carry out the special examination.

Applicable provisions

(4) Subject to subsection (5), sections 135 and 137 apply in respect of an examiner as though the references therein to an auditor were references to an examiner.

Auditor General eligible

(5) The Auditor General of Canada is eligible to be appointed an examiner and section 135 does not apply to the Auditor General of Canada in respect of such an appointment. 1984, c. 31, s. 11.

Consultation with Auditor General

Consultation with Auditor General

143. The auditor or examiner of a Crown corporation may at any time consult the Auditor General of Canada on any matter relating to his audit or special examination and shall consult the Auditor General with respect to any matter that, in the opinion of the auditor or examiner, should be brought to the attention of Parliament pursuant to paragraph 132(2)(b) or section 141. 1984, c. 31, s. 11.

Right to Information

Right to Information

144. (1) On the demand of the auditor or examiner of a Crown corporation, the present or former directors, officers, employees or agents of the corporation shall furnish such

(a) information and explanations, and

(b) access to records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries

as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the directors, officers, employees or agents are reasonably able to furnish.

Idem

(2) On the demand of the auditor or examiner of a Crown corporation, the directors of the corporation shall

(a) obtain from the present or former directors, officers, employees or agents of any subsidiary of the corporation such information and explanations as the auditor or examiner considers necessary to enable him to prepare any report as required by this Division and that the present or former directors, officers, employees or agents are reasonably able to furnish; and

(b) furnish the auditor or examiner with the information and explanations so obtained.

Reliance on reports

(3) An auditor or examiner of a Crown corporation may reasonably rely on any report of any other auditor or examiner. 1984, c. 31, s. 11.

Policy

Restriction

145. Nothing in this Part or the regulations shall be construed as authorizing the auditor or examiner of a Crown corporation to express any opinion on the merits of matters of policy, including the merits of

(a) the objects or purposes for which the corporation is incorporated, or the restrictions on the businesses or activities that it may carry on, as set out in its charter;

(b) the objectives of the corporation; and

(c) any business or policy decision of the corporation or of the Government of Canada. 1984, c. 31, s. 11.

Qualified Privilege

Qualified privilege

146. Any oral or written statement or report made under this Part or the regulations by the auditor or a former auditor, or the examiner or a former examiner, of a parent Crown corporation or a wholly-owned subsidiary has qualified privilege. 1991, c. 24, s. 43.

Costs

Cost of audit and examination

147. (1) The amounts paid to an auditor or examiner of a Crown corporation for preparing any report under section 132, 139, 140 or 141 shall be reported to the President of the Treasury Board.

Idem

(2) Where the Auditor General of Canada is the auditor or examiner of a Crown corporation, the costs incurred by him in preparing any report under section 132, 139, 140 or 141 shall be disclosed in the next annual report of the Auditor General and be paid out of the moneys appropriated for his office. 1984, c. 31, s. 11.

Audit Committee

Audit committee

148. (1) Each parent Crown corporation that has four or more directors shall establish an audit committee composed of not less than three directors of the corporation, the majority of whom are not officers or employees of the corporation or any of its affiliates.

Idem

(2) In the case of a parent Crown corporation that has less than four directors, the board of directors of the corporation constitutes the audit committee of the corporation and shall perform the duties and functions assigned to an audit committee by any provision of this Part and the provision shall be construed accordingly.

Duties

(3) The audit committee of a parent Crown corporation shall

(a) review, and advise the board of directors with respect to, the financial statements that are to be included in the annual report of the corporation;

(b) oversee any internal audit of the corporation that is conducted pursuant to subsection 131(3);

(c) review, and advise the board of directors with respect to, the annual auditor's report of the corporation referred to in subsection 132(1);

(d) in the case of a corporation undergoing a special examination, review, and advise the board of directors with respect to, the plan and reports referred to in sections 138 to 141; and

(e) perform such other functions as are assigned to it by the board of directors or the charter or by-laws of the corporation.

Auditor's or examiner's attendance

(4) The auditor and any examiner of a parent Crown corporation are entitled to receive notice of every meeting of the audit committee and, at the expense of the corporation, to attend and be heard at each meeting; and, if so requested by a member of the audit committee, the auditor or examiner shall attend any or every meeting of the committee held during his term of office.

Calling meeting

(5) The auditor or examiner of a parent Crown corporation or a member of the audit committee may call a meeting of the committee.

Wholly-owned subsidiary

(6) Where the report referred to in subsection 132(1) is to be prepared in respect of a wholly-owned subsidiary separately, subsections (1) to (5) apply, with such modifications as the circumstances require, in respect of the subsidiary as though

(a) the references in subsections (1) to (5) to a parent Crown corporation were references to the subsidiary; and

(b) the reference in paragraph (3)(a) to the annual report of the corporation were a reference to the annual report of the parent Crown corporation that wholly owns the subsidiary. 1984, c. 31, s. 11.

Reports

Accounts, etc. to Treasury Board or appropriate Minister

149. (1) A parent Crown corporation shall provide the Treasury Board or the appropriate Minister with such accounts, budgets, returns, statements, documents, records, books, reports or other information as the Board or appropriate Minister may require.

Reports on material developments

(2) The chief executive officer of a parent Crown corporation shall, as soon as reasonably practicable, notify the appropriate Minister, the President of the Treasury Board and any director of the corporation not already aware thereof of any financial or other developments that, in the chief executive officer's opinion, are likely to have a material effect on the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives or on the corporation's requirements for funding.

Reports on wholly-owned subsidiaries

(3) Each parent Crown corporation shall forthwith notify the appropriate Minister and the President of the Treasury Board of the name of any corporation that becomes or ceases to be a wholly-owned subsidiary of the corporation. 1984, c. 31, s. 11.

Annual report

150. (1) Each parent Crown corporation shall, as soon as possible, but in any case within three months, after the termination of each financial year submit an annual report on the operations of the corporation in that year concurrently to the appropriate Minister and the President of the Treasury Board, and the appropriate Minister shall cause a copy of the report to be laid before each House of Parliament on any of the first fifteen days on which that House is sitting after he receives it.

Reference to committee

(2) An annual report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to the businesses and activities of the corporation submitting the report.

Form and contents

(3) The annual report of a parent Crown corporation shall include

(a) the financial statements of the corporation referred to in section 131,

(b) the annual auditor's report referred to in subsection 132(1),

(c) a statement on the extent to which the corporation has met its objectives for the financial year,

(d) such quantitative information respecting the performance of the corporation, including its wholly-owned subsidiaries, if any, relative to the corporation's objectives as the Treasury Board may require to be included in the annual report, and

(e) such other information as is required by this or any other Act of Parliament, or by the appropriate Minister, the President of the Treasury Board or the Minister of Finance, to be included in the annual report,

and shall be prepared in a form that clearly sets out information according to the major businesses or activities of the corporation and its wholly-owned subsidiaries, if any.

Idem

(4) In addition to any other requirements under this Act or any other Act of Parliament, the Treasury Board may, by regulation, prescribe the information to be included in annual reports and the form in which such information is to be prepared. 1991, c. 24, s. 49.

Annual consolidated report

151. (1) The President of the Treasury Board shall, not later than December 31 of each year, cause a copy of an annual consolidated report on the businesses and activities of all parent Crown corporations for their financial years ending on or before the previous July 31 to be laid before each House of Parliament.

Reference to committee

(2) An annual consolidated report laid before Parliament pursuant to subsection (1) stands permanently referred to such committee of Parliament as may be designated or established to review matters relating to Crown corporations.

Contents

(3) The annual consolidated report referred to in subsection (1) shall include

(a) a list naming, as of a specified date, all Crown corporations and all corporations of which any shares are held by, on behalf of or in trust for the Crown or any Crown corporation;

(b) employment and financial data, including aggregate borrowings of parent Crown corporations; and

(c) such other information as the President of the Treasury Board may determine. 1984, c. 31, s. 11.

Annual report

152. (1) The President of the Treasury Board shall, not later than December 31 of each year, cause to be laid before each House of Parliament a copy of a report indicating the

summaries and annual reports that under this Part were to be laid before that House by July 31 in that year, the time at, before or within which they were to be laid and the time they were laid before that House.

Attest (2) The accuracy of the information contained in the report referred to in subsection (1) shall be attested by the Auditor General of Canada in the Auditor General's report to the House of Commons. 1991, c. 24, s. 44.

APPENDIX C

REPORT TO THE HOUSE

Monday, 15 November 1999

Pursuant to Standing Order 108(3)(*e*), the Standing Committee on Public Accounts has the honour to present its

FIRST REPORT

The Standing Committee on Public Accounts has considered Chapter 6 of the April 1999 Report of the Auditor General of Canada (*Human Resources Development Canada–Accountability for Shared Social Programs)* and the Committee has agreed to report the following:

Introduction

The federal government's role in Canada's social program has undergone important changes over the last few years. The federal government has recently entered into a joint agreement with nine provinces (except Quebec) and two territories (Yukon and the Northwest Territories) on a framework for new types of arrangements in a social union.

The National Child Benefit (NCB) is a new type of arrangement that combines federal tax expenditures and provincial programs. Its main goals are to reduce the depth of poverty in families with children, increase parental attachment to the workforce.

Initially, the federal government's financial commitment to the National Child Benefit (NCB) was $850 million in 1998. This commitment rose by $850 million between 1998-2000, bringing the total annual financial commitment to $1.7 billion for the fiscal year 2000-2001. As the federal NCB funding increases, the signatory provinces and territories have agreed to reinvest the savings they will realise from the reduced social assistance payments into complementary programs targeted for improving work incentives, benefits and services for low income families with children.

The Employability Assistance for Persons with Disabilities (EAPD) program is a more traditional federal-provincial cost shared program. Its aim is to assist people with disabilities to overcome the barriers they face in the work force by helping them to prepare for, obtain, and maintain employment.

Accountability is a key element in the design of both programs. In official statements, all signatories have made commitments to account for expenditures of funds and of outcomes.

Notwithstanding these commitments, it is unclear how the accountability for overall results of these programs is to be achieved.

It was with these issues in mind that the House of Commons Standing Committee on Public Accounts decided to consider the findings of chapter 6 of the April 1999 Report of the Auditor General of Canada on Human Resources Development Canada: Accountability for Shared Social Programs. The Committee met on the 1 June 1999 with Mr. David Rattray (Assistant Auditor General, Audit Operations Branch) and Mr. Lewis Auerbach (Director, Audit Operations Branch). Representing Human Resources Development Canada were Ms. Claire M. Morris (Deputy Minister), Ms. Susan Scotti (Associate Assistant Deputy Minister, Human Resources Investment Branch) and Ms. Margaret Biggs (Associate Executive Head, Strategic Policy).

Observations and Recommendations

Mr. Rattray stated that the audit focussed primarily on the challenges for accountability that confront the National Child Benefit (NCB) program and the Employability Assistance for Persons with Disabilities (EAPD) program. As he told the Committee, "citizens, legislative bodies and audit offices may justifiably seek assurances that these new arrangements increase, or at least do not diminish, accountability for expenditures on shared social programs and their outcomes".

Thus, the key issue is how to assure Canadians that they are receivingaccurate and adequate information on whether money for these programs has been spent for the purposes intended and whether desired outcomes have been achieved.

The focus of the Auditor General's report was primarily on the accountability reports that will be published annually for each program. Mr. Rattray stated that it is through these reports that readers will be able to assess the programs and how well the federal government and the other participants have fulfilled their joint commitment of achieving the goals they have set.

Because the study of the programs was at an early stage of development, the Office of the Auditor General of Canada did not have formal criteria against which to undertake an examination of the programs. However, the Auditor General did have expectations that could be used in a future audit. These expectations are the following:

- The development of clear and concrete indicators and measures; and
- Information that is understandable, balanced, attributable and reliable.

Regarding the National Child Benefit (NCB), Mr.Rattray observed that "…all partners have committed to achieving transparency and to publishing annual reports on the achievements of these goals." However, despite these commitments, there remains the possibility that the information may be incomplete, not easily comparable between one province and another, or inaccurate. Mr. Rattray stated that Human Resources Development Canada (HRDC) shares the Auditor General's concerns and is working with the other participants to address this issue.

The financial commitment of signatory provinces, territories, First Nations and Ontario municipalities is especially important to the National Child Benefit (NCB) program. The challenge involves how to assess whether these commitments have been met, because of interjurisdictional issues involved, differences between data systems, and the fact that both First Nations and Ontario municipalities, who were not part of the negotiations, now have reinvestment obligations because they directly administer welfare budgets.

The first report on the National Child Benefit (NCB) program was released in Quebec City on the 14th of May 1999. The report is a joint product of all the signatory governments. The first report begins the participant's commitment to report regularly on the progress of the initiative. Future reports should contain more information on outcomes and actual expenditures. The progress reports emphasise accountability to the public. In the Auditor General's view, the reports should also include accountability to Parliament and to provincial legislatures.

The Employability Assistance for Persons with Disabilities (EAPD) program is a more traditional federal-provincial cost-shared agreement that does not have the same innovative features of the National Child Benefit (NCB) program. In negotiating these agreements, all signatories have committed themselves to transparency and accountability.

Each signatory under the Employability Assistance for Persons with Disabilities (EAPD) program must ensure that the information provided be credible and that it permits meaningful comparisons of different provincial approaches, and that there is a periodic but timely assessment of the program's overall performance. The Auditor General noted that it was not clear whether there will be an overall report on the Employability Assistance for Persons with Disabilities (EAPD) program that will provide information on accomplishments. The Auditor General recommended that such a report should be prepared to facilitate accountability for federal expenditures.

In her opening statement, Ms. Morris, indicated to the Committee that the Department had a remarkable opportunity to play a major role in setting up new framework between the federal and provincial governments in the area of social policy and programs.

In the past, when large social transfer programs were involved, governments were accountable for spending dollars on approved programs but not on the impacts of this spending upon Canadians. Today, federal-provincial relationships have evolved to a point where governments are moving away from "financial accounting principles" towards a much broader and more inclusive objective – shared accountability for achieving social policy objectives and goals that serve the individual and collective interests of Canada's citizens.

Ms. Morris informed the committee that the National Child Benefit (NCB) program spelled out a different kind of accountability under which all participating governments are committed to jointly reporting to the public on an annual basis. This form of accountability differs from the more traditional federal-provincial programs that involved one government being held accountable to another government – typically a provincial government to the federal government.

Unlike previous arrangements, the National Child Benefit Governance and Accountability Framework also commits governments to focus on program outcomes. In other words, the emphasis is on the results produced and the progress achieved in reducing child poverty. Further, the framework recognises the importance of evaluative and analytical work to ensure the appropriate and reliable measurement of program outcomes.

Ms. Morris mentioned that the first release of the NCB Progress Report was an important first step in meeting the commitment to public accountability. Given that the National Child Benefit (NCB) program started in July 1998, the first report is necessarily preliminary, but it remains essential as it serves as a baseline for future reports on the National Child Benefit.

Ms. Morris noted that, as a complement to the NCB Progress Report, participating Ministers have agreed to undertake a co-ordinated approach to evaluation of the National Child Benefit (NCB) program. Such an approach, according to Ms. Morris, will allow governments to learn from one another's experience to develop more effective programs over time.

Ms. Morris emphasised the remaining challenges to the development, implementation and collective reporting on the National Child Benefit (NCB) program, especially ensuring that all participants collaborate in establishing standards by which information is collected, analysed and reported to the public. Also required is an agreement on the progress indicators that measures the program's progress in achieving its objectives.

Ms. Morris informed the Committee that under the Employability Assistance for Persons with Disabilities (EAPD) program the provinces will provide annual reports to the federal government on program results and services. The Department is currently developing a prototype report that will be further refined through consultations with its provincial partners. The Department intends to make available to the public a national report that consolidates information contained in the provincial reports.

Also, Human Resources Development Canada is currently developing an evaluation approach for Employability Assistance for Persons with Disabilities (EAPD) program. This work is being co-managed through a federal-provincial steering committee on evaluation, and Ms. Morris indicated that a report by an independent evaluator recommending an evaluation process and methodology is expected in September of this year.

The Committee acknowledges the efforts of the Department and the other signatories in the development, implementation and public reporting of the National Child Benefit (NCB) program and the Employability Assistance for Persons with Disabilities (EAPD) program but concerns remain regarding the apparent lack of progress in establishing quantitative goals and implementation time frames for each of the initiatives. When questioned about program targets for the EAPD, Ms. Morris stated that there were no specific quantitative targets for overall program objectives but indicators of progress have been developed. When the Committee further enquired about program performance expectations for the National Child Benefit (NCB) initiative, Ms. Biggs, reported the following: "no, were not setting those goals. Were measuring the impact, the change in each of these indicators over time."

The Committee feels that developing progress indicators , while essential, is not enough. Clearly stated and measurable performance expectations are required to determine the degree to which programs have achieved their aims. Thus the Committee recommends:

That Human Resources Development Canada and its signatories determine specific quantitative expectations of performance for their respective program goals along with implementation timetables for the National Child Benefit (NCB) program and Employability Assistance for Persons with Disabilities (EAPD) program; and

That Human Resources Development Canada and the other signatories regularly report on progress in setting quantitative goals and implementation of deadlines in their respective reports to the public and their parliamentary legislatures.

Mr. Rattray informed the Committee about concerns regarding the quality of the information exchanged between all participants in the National Child Benefit (NCB) and Employability Assistance for Persons with Disabilities (EAPD) programs. According to Mr. Rattray, there is nothing specific in the existing arrangements that would require the participants to provide a preliminary audit to assess the quality of the data before it is shared with all the other participants. In other words, how would participants ensure the data collected is correct, complete and comparable before sharing it with the other participants.

In light of this, the Committee recommends:

That Human Resources Development Canada with the other signatories develop a common data reporting framework and protocol aimed at achieving quality, consistency and comparability of program data; and

That Human Resources Development Canada and the other signatories endeavour, where feasible, to present audited data in the annual progress reports.

Another issue raised in the meeting was accountability to the public and to governments. While the Committee agrees that accountability to the general public is important, the Department and the other signatories should also report directly to their respective parliamentary legislatures on the progress of the National Child Benefit (NCB) program and the Employability Assistance for Disabled Persons (EAPD) program. Thus the Committee recommends:

That Human Resources Development Canada together with the other signatories ensure that the annual progress report of these initiatives are tabled in their respective parliamentary legislatures at the earliest opportunity after the report is released to the public.

Human Resources Development Canada (HRDC) is clearly aware of the importance of program evaluation as a means of further ensuring the efficacy, accountability and transparency of programs. Ms. Morris stated that the

National Child Benefit Governance and Accountability Framework recognises the importance of evaluative and analytical work to ensure the appropriate and reliable measurement of program outcomes. Further, the Department has already started developing an evaluation approach for the Employability Assistance for Person with Disabilities (EAPD) program. The Department expects a report by an independent evaluator in September 1999 that will recommend the methodology and process for the evaluation. During the meeting, the Committee secured a commitment from the deputy minister to prepare an overall report on Employability Assistance for Persons with Disabilities (EAPD) program. As a result, the Committee recommends:

> **That Human Resources Development Canada and all the other signatories commit resources to implement the necessary program evaluations for the National Child Benefit (NCB) program and the Employability Assistance for Persons with Disabilities (EAPD) program in order to permit comparisons and provide information on best practices.**

Conclusion

The Committee acknowledges the efforts of Human Resources Development Canada (HRDC) and all the other signatories in setting up these new shared accountability arrangements in delivering social programs to Canadians. Given the innovative nature of these shared accountability arrangements, many outstanding issues have been addressed, while many more still remain unresolved. The Committee expects a satisfactory resolution of the remaining outstanding issues as Human Resources Development Canada (HRDC) and the other signatories table their progress reports to the public and to Parliament and provincial legislatures.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meeting No. 2)* is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Monday, 15 November 1999

Pursuant to Standing Order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

SECOND REPORT

The Standing Committee on Public Accounts has considered Chapter 10 of the April 1999 *Report of the Auditor General of Canada* (*Indian and Northern Affairs Canada – Funding Arrangements for First Nations: Follow-up*) and the Committee has agreed to report the following:

Introduction

> Any new fiscal relationship must ensure that all Aboriginal governments and institutions are accountable to their members through frameworks built on the recognized principles of transparency, disclosure and redress common to governments in Canada. This includes the progressive implementation of government budgeting, internal controls, reporting and auditing standards.(1)

In his Report of April 1999, the Auditor General presented the results of a follow-up audit conducted subsequent to a 1996 audit of funding arrangements between the federal government and Canada's First Nations. Federal government management of these arrangements is the responsibility of Indian and Northern Affairs Canada (the Department). The results of the original audit were contained in chapter 33 of the Auditor General's November 1996 Report and were reviewed by the Standing Committee on Public Accounts in December 1996.

Parliament appropriates approximately $4 billion each year to the Department for funding arrangements that support a variety of programs (for social assistance, education, capital facilities, housing, and economic development) in First Nations communities. Most of these arrangements are in the form of contribution agreements under which First Nations must satisfy certain conditions. The Department is gradually devolving responsibility for management and delivery of programs funded under these funding arrangements to the First Nations themselves. Thus the capacity of First Nations to manage these programs, the pace of devolution, and accountability are issues that must be taken into careful consideration.

Funding arrangements are a key element in the complex and sensitive relationship that exists between the Government of Canada and First Nations. As the Auditor General testified before this Committee on the 10th of December 1996, funding arrangements are:

> the mechanisms by which the Department [Indian and Northern Affairs Canada] formalizes its financial and accountability relationship with First Nations. Their design and implementation impacts strongly on the success of programs and ultimately on the standard of living of the recipients.

The Committee shares this view and has shown a particular interest in those audit reports that have examined the Department's management of financial and accountability relationships with Canada's First Nations.

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(1) Excerpt from *Gathering Strength: Canada's Aboriginal Action Plan*, Minister of Public Works and Government Services Canada, published under the authority of the Minister of Indian and Northern Affairs Canada, Ottawa 1997.

Based on this interest and the significant sums of money involved, as well as the importance of funding arrangements to First Nations communities, the Committee decided to examine the results of the follow-up audit. Accordingly, on 8 June, the Committee met with the Auditor General of Canada, Mr. Denis Desautels, FCA, and Mr. Grant Wilson (Principal, Audit Operations Branch) and Mr. Ted Bonder (Director, Audit Operations Branch), members of his staff. Mr. Dennis Wallace, Associate Deputy Minister and Mr. Brent DiBartolo, Assistant Deputy Minister, Corporate Services, represented the Department.

Observations and Recommendations

The Committee wishes to recognize, at the outset, that the Department works in a challenging environment in which progress can only be achieved on the basis of consultation, co-operation, and mutual trust. This means that most changes will be gradual and that the expectations of all parties must be realistic and tempered with a degree of patience. It is important, therefore, to acknowledge that the Department and its First Nations partners have made headway since the results of the last audit were reported.

The Department's deadline for full implementation of a new funding arrangement (Financial Transfer Agreement, or FTA) has been adjusted in order to ensure that First Nations have both the willingness and capacity to assume the additional responsibilities involved. The Department and First Nations have also taken steps intended to clarify and strengthen accountability and to build First Nations' capacity in the area of accounting practices. The Assembly of First Nations and the Certified General Accountants Association have signed a memorandum of understanding that is intended to improve First Nations' capacity in the field of accounting. This initiative is being financed by the Department as part of *Gathering Strength*, and has also won the endorsement of the Auditor General of Canada. Finally, the Department testified that, at the time of the hearing, 80% of First Nations had completed management and accountability self- assessments, up from 63% at the time of the follow-up audit's completion. Only the Department's encouraging forecast that the completion rate will rise to 100% this fall surpasses this remarkable improvement.

These are noteworthy achievements that demonstrate that concerted effort and co-operation by the Department and its First Nation partners can result in improved funding arrangements and better accountability on all sides. Nevertheless, the follow-up audit clearly shows that several important gaps remain to be closed before Parliament, First Nations, and the Department can rest assured that funding arrangements meet all reasonable expectations.

During the meeting held in December 1996, Mr. Scott Serson, then the Department's Deputy Minister, described the Department's overall accountability framework in the following way:

> First Nations are expected to conduct their affairs in accordance with principles common to all governments in Canada: transparency, disclosure and redress. They are intended to ensure the accountability of First Nations' leaders to their communities. In practice, every first nation, every Inuit community and every tribal council funded by DIAND are currently required to assess their management and accountability system so that communities have complete information on how their governments operate.

While it matters greatly that the mechanisms of accountability be in place, these mechanisms are deprived of their value if the obligations they prescribe are not fully met by all concerned. In this instance, failure to do so would place in jeopardy the principles of transparency, disclosure, and redress that are central to accountability. This in turn would deny residents and the leadership of First Nations' communities, the Department, Parliament, and Canadian taxpayers of the complete information they need to assess the efficacy of funding arrangements. In the context of what has been said about the importance of these arrangements, this should not be allowed to happen, and if it does, corrective measures must be taken with all appropriate urgency.

It is thus of some concern that the follow-up audit revealed problems in the Department's actions with regard to the design and implementation of funding agreements, treatment of self-assessments, and redress arrangements.

Funding Arrangements

In 1996, there were six types of funding arrangements in place, each with its own set of conditions. In response to the Auditor General's 1996 Report, and recommendations contained in the 1996 Report of the Royal Commission on Aboriginal Peoples, the Department set about revising fiscal relations with First Nations. A new funding arrangement, the Financial Transfer Arrangement (FTA), already underway, was to replace most other funding arrangements by March 1998.

The follow-up audit discovered that progress in adopting the FTA was "considerably behind the Department's target," with less than 20% of First Nations and tribal councils using the new arrangement. This prompted the Auditor General to observe in his Report that "[a]t the rate of progress since 1996, it will take at least 10 years to completely replace existing funding arrangements."

In reply to this observation, the Department indicated that it had slowed down the rate of implementation in order to better address the willingness and capacity of First Nations to accept the FTA. This is in keeping with Mr. Serson's 1996 testimony before the Committee that acknowledged that meeting the March 1998 target date was "unlikely," that the date had been chosen "to challenge ourselves to do the work," and that it was going to be "much tougher than we originally thought" to meet the target. These are reasonable explanations, which should have been taken into account when a target date was first identified.

The establishment of a feasible target date would have provided the Department and its First Nations partners with a realistic goal around which to organize their efforts. The absence of a realistic target date may have been further exacerbated by the Department's lack of a plan and strategy to facilitate progress in adopting FTAs. In his testimony, Mr. DiBartolo acknowledged that there was "no plan to move FTA's out throughout the country" because the willingness and capacity of First Nations to accept them varied. The Department indicates that it will have to wait until that willingness and capacity exists. In the meantime, it is working to bring about these conditions.

Against this background, the Department has developed another new funding arrangement (Canada/First Nations Funding Arrangement, or CFNFA) which is designed to achieve better co-ordination between all departments involved in funding First Nations. This is a laudable goal, one which responds to the Auditor General's recommendation found in the 1996 audit report. However, the Auditor General notes in his 1999 Report that the FTA, which the Department intends to replace with the CFNFA, is already being used for multi-departmental planning. He also reports that officials at one of the Department's regional offices have expressed concerns that First Nations were not given adequate opportunity for input into the design of the CFNFA. For its part, the Department indicated that so far it has worked closely with Health Canada on the design of the CFNFA but only held discussions with two other departments (Solicitor General and Department of Fisheries and Oceans) that provide funding. This gives rise to concerns that the Department may be embarking on the implementation of a new funding arrangement before consultations have been completed and before the most recent arrangement (the FTA) has been fully understood and accepted. This may in turn lead to some confusion among First Nations communities and may complicate efforts to win their support for any new arrangement.

In light of the above observations, the Committee recommends:

That the Indian and Northern Affairs Canada:

A. Determine which funding arrangement will replace the several funding arrangements currently in place and communicate its decision to its First Nations partners, to Parliament in its *Report on Plans and Priorities for 2000 – 2001*, and to all federal departments involved in the provision of funding to First Nations;

B. Establish a plan and a strategy to facilitate progress in adopting the new funding arrangement that includes:

i. the considerations and approach to be used in achieving the objective(s),

ii. the identification of departmental and First Nations risks,

iii. the development of a realistic conversion table that all parties could agree to, and

iv. a realistic completion date that includes a definition of what is meant by "complete";

C. Consult and work closely with all First Nations to ensure that:

i. the new funding arrangement, including its accountability provisions, is fully understood, and

ii. to ensure that the capacity and willingness to adopt the new arrangement is fully present;

D. Ensure that the new arrangement is sufficiently flexible to accommodate varying degrees of capacity and condition among First Nations; and

E. Work closely with all federal departments currently involved in funding arrangements with First Nations in the design and implementation of a single generic arrangement for multi-departmental funding.

Accountability: Self-assessment and Redress

As part of its efforts to build capacity within First Nations communities, the Department has created a 40-page workbook for use by First Nations to use to assess their management and accountability structures. These self-assessments are to be submitted to the Department and are meant to serve as an accountability tool in themselves as well as a means of highlighting deficiencies. When deficiencies are found, a development plan is required to address them. The results of this activity should also provide guidance in shaping and improving subsequent funding arrangements.

The information that is reported through the self-assessment process should be reviewed and assessed on a regular basis. Departmental follow-up should occur when reported information is inadequate or incomplete. When development plans are drawn up to address problems, these plans should also be reviewed and assessed. This process of self-assessment and departmental review and follow-up supports some of the central reasons for having an accountability regime. Such a regime is an indispensable means towards the achievement of core goals, in this case improved capacity and standards of living in First Nations communities and (to quote the Department) "to build public confidence, on and off reserve, that resources are being managed effectively.(2)" The other central reason for having an accountability regime in which all partners play a full role is, as former Deputy Minister Serson told this Committee, that "the Minister is accountable to Parliament for the use of public funds. First Nations chiefs and councils are therefore accountable to the Minister for these funds." Parliament, the Department, and the First Nations and their members can only play their respective roles on the understanding that the data reported for accountability purposes are relevant, timely, complete and reliable beyond question.

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(2) Indian and Northern Affairs Canada, *Report on Plans and Priorities, 1999 – 2000*, p. 10.

It thus comes as a disappointment to the Committee to learn of inadequacies in the Department's review and follow-up (where necessary) of First Nations' self-assessments of their accountability and management regimes and of development plans. Specifically, the audit found that:

- There was often no evidence that the Department had corroborated positive self-assessments (which were more frequent than negative ones) to confirm their validity;
- None of the self-assessments were signed by the First Nations as a demonstration of formal acceptance and endorsement of the results, a factor which limited their usefulness;
- Many self-assessments were missing;
- More than one in three of the required self-assessments had not been completed;
- The Department does not have a national database containing essential information from the self-assessments that have been received, and
- Development plans often did not fully address the deficiencies identified in the assessments.

The Committee welcomes indications that 80% of the self-assessments had been received as of the hearing date and that the completion rate is expected to rise to 100% by this fall. Additional measures must be taken, however, to ensure that self-assessments attain their full potential as a tool for improving funding arrangements and overall accountability, and for reducing risk. The Committee therefore recommends:

That the Indian and Northern Affairs Canada verify information reported through self-assessments and review development plans for their adequacy on a test basis, with particular emphasis on positive self-assessments submitted in high-risk cases;

That, in those cases in which self-assessments have not been submitted according to agreed-to deadlines or contain incomplete or incorrect information, the Indian and Northern Affairs Canada work closely with the community in question to build up capacity and understanding to appropriate levels;

That, in those cases in which problems with self-assessments persist, the Indian and Northern Affairs Canada suspend funding until those problems have been resolved;

That the Indian and Northern Affairs Canada arrange to have First Nations leadership provide formal written indication that they accept and endorse all self-assessments that have been submitted; and

That the Indian and Northern Affairs Canada establish a national data base that captures information submitted through self-assessments, as well as the timeliness and comprehensiveness of submissions, as well as their validity and departmental follow-up where appropriate.

The Department has correctly determined that redress – the opportunity for First Nations and their members to obtain an objective review and resolution of allegations – is a key element of an effective accountability regime. Redress is included among the terms and conditions of funding arrangements and the Department considers that it has a role to play in managing allegations. This role involves the receipt of allegations, deciding the extent to which the Department should be involved in resolving them, and where the case in question should be referred.

The audit found evidence of shortcomings in the way the Department manages this role. For example:

- Senior departmental managers were given inadequate guidance on how to assess allegations;
- The Department does not have a national reporting system to help manage allegations, thus leaving it without an overall picture of the nature, frequency, or ultimate disposition of allegations;

- As a consequence of incomplete data in its possession, the Department's reported receipt of over 300 allegations over a two-year period is, according to the Auditor General, the "minimum known number"; and
- The Department's self-assessment workbook only contains one question on redress and this question asks only if a dispute resolution and appeal process to address complaints is in place.

These, as well as other observations led the Auditor General to report that the Department "is not taking adequate steps to ensure that allegations of wrongdoing, including complaints and disputes related to funding arrangements are appropriately resolved." He also concluded that because the Department does not have sufficient documentation of, or documentation standards for, allegations, it is "at risk should it need to demonstrate to other parties that it acted appropriately."

For his part, Mr. Wallace acknowledged in his opening statement that the Department has more work to do in this area. Actions currently underway include an updating of the guidance provided to senior managers, and working with First Nations in order to improve their internal capacity to deal with allegations. The Department is studying the feasibility of setting up a national registry for allegations.

The Committee welcomes the Department's acknowledgement of the need for further action in the area of redress and recommends:

That the Indian and Northern Affairs Canada proceed with the revision of its guidelines on allegations and that the following issues be particularly addressed: evaluation of the merits of an allegation; decisions concerning what additional information may be needed; who should collect any additional information; and, how decisions should be made regarding who – the Department, First Nations, or other authorities – should resolve allegations; and

That guidelines on the treatment of allegations include clarification of the responsibilities of the Department and First Nations regarding the determination of the merits of an allegation, the nature of the risks involved, the setting of priorities, the identification of alternative actions, and preventative measures.

Furthermore, the Committee also recommends:

That the Indian and Northern Affairs Canada establish a target date for the completion of revised guidelines on how it will deal with allegations, and that it inform its First Nations partners and Parliament of that date.

Information on the nature of allegations, the conditions that give rise to them, and how they are resolved all support accountability and should be used to adjust funding arrangements. The Committee therefore recommends:

That the Indian and Northern Affairs Canada develop a national database to record allegations and their disposition. This database should include information on the nature of allegations and the conditions that have produced them, areas of high and low risk within and among different First Nations, and an assessment of the impact on accountability and funding arrangements.

Because the Committee firmly believes that Parliament must be kept informed of the operation of redress mechanisms, it recommends:

That the Indian and Northern Affairs Canada include information on the number and type of allegation received during the previous fiscal year and their ultimate disposition in its annual Departmental Performance Report, beginning with the Report for the period ending 31 March 2001.

During testimony, the Department indicated that it now has audit review committees that meet every month to examine audited financial statements submitted by First Nations and departmental officials will be going out to meet with the first nations to discuss progress on those audits. This is clearly a step in the right direction. However, it came to the Committee's attention during the hearing that the financial statements of First Nations are not subject to public disclosure.

Mr. Wallace explained that owing to a 1988 court decision, the integrity of financial statements is protected because they are often consolidated statements that contain reports on businesses owned by First Nations. In response to questions, Mr. DiBartolo indicated that the Department might consider including a provision in funding arrangements that would require disclosure of those aspects of financial statements that relate directly to the receipt and disposition of public funds without touching on privately owned businesses. The Committee strongly believes that financial statements should be available publicly and accordingly recommends:

> **That the Indian and Northern Affairs Canada include a provision in all future funding arrangements that calls for public disclosure of all elements of First Nations' financial statements relating to the receipt and disposition of funds provided by the federal and provincial governments of Canada.**

Conclusion

As a result of its examination, the Committee has learned that funding arrangements are one of the most important cornerstones of managing the relationships between First Nations and the Canadian government. Furthermore, the Committee has learned that the Indian and Northern Affairs Canada manages federal government responsibilities in this area in the context of a complex and challenging environment. Over the course of several years, the Department and its First Nations partners have taken steps in the right direction. These steps should enhance the accountability of all partners while adding to First Nations' capacity and bettering the living standards of affected communities.

However, the Committee has also learned that the Department needs to do better in its monitoring of the operation of funding arrangements, gathering, keeping, and analyzing data, getting input from the First Nations on the design of funding arrangements, and managing and recording data on allegations. Many, if not all, of the necessary structures are already in place and the Department has expressed its willingness to take action. All that remains is for the structures to be fully and properly used, and the actions to be vigorously taken.

The Department needs to develop a plan that includes timelines for the full adoption of new funding arrangement. It needs to ensure that this new arrangement is flexible enough to meet the varying capacities of individual First Nations while at the same time providing the fullest possible assurance that value for money is being achieved. And the Department needs to make sure that the mechanisms are in place that will deal with allegations expeditiously, fairly, and in a way that sees to it that satisfactory resolutions are achieved. These are not simple challenges, but the Committee believes that the right combination of determination, co-operation, and attention to constructive recommendations will result in meaningful progress.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings *(Meeting No. 2)* is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Wednesday, 15 December 1999

Pursuant to Standing Order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

THIRD REPORT

The Standing Committee on Public Accounts has considered the April 1999 Report of the Auditor General of Canada – Other Audit Observations *(National Defence and Health Canada: Non-compliance with conditions and inadequate monitoring with respect to the pre-licensing use of an anti-malarial drug)* and the Committee has agreed to report the following:

Introduction

The health and safety of the men and women who serve Canada in its armed forces is a matter of ongoing concern to the Standing Committee on Public Accounts. In recent years, the Committee has examined the results of audits performed by the Auditor General of Canada on the Department of National Defence (DND) and its management, procurement, and planning systems. The reports tabled by the Committee following these examinations have placed a strong emphasis on measures aimed at reinforcing the safety of armed forces personnel.

Based on its continuing interest in the Department of National Defence, the Committee decided to examine an audit note included under Other Audit Observations in the April 1999 Report of the Auditor General of Canada. This note reported the results of an audit that was done of circumstances surrounding the administration, in the fall and winter of 1992, of an (at that time) unlicensed drug to Canadian peacekeepers by DND under conditions established by Health Canada.

In order to develop a better understanding of what had happened and to inquire into corrective measures taken since April 1999, the Committee met with witnesses on 18 November 1999. Mrs. Maria Barrados, Assistant Auditor General, and Mr. Ronald Campbell, Principal, Audit Operations Branch, represented the Office of the Auditor General of Canada. Mr. Dann M. Michols (Director General, Health Protection Branch and Mr. Ian MacKay (Manager, Special Access Programme, Bureau of Pharmaceutical Assessment) represented Health Canada. Brigadier General Claude Auger (Surgeon General and Commander, Canadian Forces Medical Group) and Lt. Colonel Greg Cook (Head, Public Health, Directorate of Medical Policy) appeared as witnesses for the Department of National Defence (DND).

Background

In the fall and winter of 1992, Canadian armed forces personnel were sent on a peacekeeping mission to Somalia, a country in which a drug-resistant form of malaria was prevalent. In order to protect its personnel, DND dispensed an anti-malarial drug – mefloquin – that was known to be effective when traditional drugs were not and was already approved for sale in 29 countries. At that time, however, mefloquin was unlicensed in Canada and only available under a clinical trial (called a Safety Monitoring Study).

DND was under obligation to adhere to the conditions imposed by the trial, conditions approved by the federal department that licences drugs for sale in Canada – Health Canada. These conditions, collectively known as a protocol, required DND to obtain informed consent from its personnel and to keep careful records of the drug's use and possible side effects on a regular basis. These records and data were to be submitted to the drug's manufacturer – which was responsible for conducting the trial – at six-month intervals. This data would be used to better understand the drug's effects under field conditions and to establish its safety and efficacy before its manufacturer would be granted a licence to sell mefloquin to the general Canadian public.

Although the Department had obtained mefloquin for its personnel in the past and had met the conditions imposed by the trial, it did not do so on this occasion. The approximately 900 troops deployed to Somalia were given an oral briefing on mefloquin and its possible side effects prior to departure. No written documentation was given to them and their consent was not obtained. DND did not systematically monitor the drug's efficacy or adverse reactions among its personnel while in the field and, consequently, did not provide the manufacturer with the required records or data.

DND stated that it was of the opinion that it had the approval of Health Canada to waive the requirements of the protocol. In fact, no such authorization was sought or obtained. According to the Department, poor communications between two of its divisions were at fault; each thought that the other had applied for and received permission to set the protocol aside, but neither had checked or informed the same.

Apart from establishing the protocol for the drug trial, Health Canada took a hands off approach, in conformity with its procedures regarding all such trials. It approved the study design and protocol for the Safety Monitoring Study and the manufacturer conducted the trial.

In January 1993, Health Canada licensed mefloquin and the drug became available on the market in March 1993. In October 1994, after the media raised questions about the use of the drug on the Somalia deployment, the Department asked the manufacturer for its records on the 69,000 doses of mefloquin provided DND in 1992. The manufacturer responded that it had no such records and Health Canada pursued the matter no further. In its final report on the drug trial issued in April 1993, the manufacturer indicated that other participants in the trial had also failed to provide information required by the protocol.

Neither the Department of National Defence nor Health Canada disputed the Auditor General's description of the circumstances surrounding DND's acquisition and use of mefloquin.

Observations and Recommendations

In testimony before the Committee, DND acknowledged its responsibility for what happened and explained that at the time of the Somalia deployment, mefloquin was the most effective drug available to protect its personnel against malaria. DND then described the actions it has taken to prevent a reoccurrence of the 1992 event. The Department has:

- Established a regulatory affairs position to serve as a single contact point with Health Canada and produce better documentation of the discussions between the two departments; and

- Confirmed, via a directive, a requirement and procedure for acquisition, distribution, use, and recording of unlicensed medical products.

The Department is now developing a detailed drug and vaccine sheet for the benefit of the Canadian forces health care provider and Canadian Forces members, and is also developing an adverse effect monitoring and reporting database.

The Department of National Defence failed to adhere to the protocol established for the clinical trial when it dispensed mefloquin for use on the Somalia deployment, an error that it has acknowledged. It must shoulder its share of the blame for what occurred, especially with regard to the breakdown in inter-divisional and inter-departmental communication. The Committee acknowledges the extraordinary circumstances surrounding deployments, accepts the Department's explanations and finds that the corrective actions it has taken appear to be appropriate. The Committee fully expects that this incident will not be repeated and recommends:

> **That when it participates in trials of unlicensed drugs, the Department of National Defence take every necessary measure needed to ensure that its inter-divisional and inter-departmental communications function properly and that the protocols for such trials are adhered to scrupulously.**

In addition, the Committee recommends:

> **That the Department of National Defence include a discussion of its efforts to improve its control over, and use and monitoring of, unlicensed drugs supplied under the terms imposed by clinical trials in its annual Departmental Performance Report for the period ending 31 March 2000. If the Department has obtained and administered unlicensed drugs during this period, it must clearly link the results obtained with the measures it has taken.**

In his testimony, Mr. Michols suggested that Health Canada's involvement in clinical trials is an active one. He indicated that the Department sought to ensure that Canadians had access to mefloquin by "working with the manufacturer to sponsor a special clinical trial" for the drug, a statement that implied an ongoing interaction between them. This impression of a department actively engaged in the trial process, or at the very least, actively aware of the trial as it unfolded, was reinforced by this subsequent statement:

> In a general way, drug development relies on an effective partnership between Health Canada as the regulator, the pharmaceutical industry, physicians and other health care professionals and the institutions with which research is conducted as well as with the patients themselves. Within this partnership, Health Canada is responsible for ensuring that clinical trials are designed according to national and international scientific and medical standards and that the patients are not exposed to undue risk.

In this instance, however, if Health Canada was a partner, it was largely a silent one. Health Canada was unaware that the manufacturer had not received records required by the protocol. In particular, Health Canada was unaware that a significant number of records from a large federal government department (DND) participating in the trial were not being submitted to the manufacturer. Claims to partnership with the manufacturer seem limited, therefore, to the period during which the protocol was developed and afterwards when the drug was licensed. Any partnership between Health Canada and DND regarding this trial simply did not exist and, therefore, cannot be said to have existed between Health Canada and this group of patients either. Health Canada did not ensure that these patients were not exposed to undue risk, or at the very least, did not assure itself of that fact. While Mr. Michols testified that Health Canada "does monitor adverse drug reactions submitted by the sponsor of a clinical trial through the course of that clinical trial," that works only if the trial participants are submitting the required reports. The absence of a significant body of data – including potential data on adverse affects – could not have benefited this trial or the reliability of the conclusions drawn from it. Mr. Michols' assertion that Health Canada "has confidence in the partnership it has with clinical trial sponsors and physicians" concerns the Committee greatly in light of the failure to obtain the required reports and data during this trial and to ensure the existence of an effective partnership between itself and all trial participants. These concerns must be seriously addressed by the Department.

Health Canada testified that when it licensed mefloquin in January 1993, it received a "comprehensive data package" that included data from well-designed clinical trials. However, this comprehensive package did not include records for, or data derived from, 33.8 percent of the 501,424 pills dispensed during the trial or records for 34.9 percent of the patients. And it contained no records whatsoever of the 69,000 pills dispensed to the approximately 900 Canadian peacekeepers deployed to Somalia.

Health Canada claims that it compensated for gaps in the Canadian data with information derived from trials conducted elsewhere and from international post-marketing data. If this is so, and if these data were considered sufficiently reliable as to obviate the necessity of having complete data from the Canadian trial, one might well ask why Canadian trials are deemed necessary in the first place. The Committee is seriously concerned about Health Canada's failure to obtain complete data from the Canadian clinical trial when it considered licensing mefloquin for sale in this country. Health Canada must also take this concern of the Committee's into serious consideration.

Health Canada licensed Mefloquin in January 1993. In March 1993, the drug became available for sale on the Canadian market. In April 1993, the manufacturer issued its final report on the drug trial. That report indicated that the manufacturer had not received the records for all of the pills dispensed or all of the patients who had received them. In October 1994, 21 months after mefloquin had been licensed, 19 months after it went on sale, 18 months after the manufacturer's final report, and after use of the drug during the Somalia mission became an issue in the media, Health Canada approached the manufacturer in search of the data from DND. The manufacturer did not have these records and was unable to get them from DND. Health Canada took no further action. Mr. Michols testified that this was "primarily because there was no further action to be taken" since the drug had already been licensed.

Health Canada licensed this drug despite the fact that it had not verified the full status of the trial as it unfolded and despite the absence of complete data once the trial had ended. If it was indeed aware that a full set of data from the Canadian trial was not available and that the protocol had not been completely followed, it went ahead and issued a licence anyway, based in part on the fact that the drug had been tested and licensed elsewhere.

Health Canada has no procedures for monitoring the conduct of studies or clinical trials and Mrs. Barrados testified that "there is a need to strengthen measures for ensuring compliance with the approved protocols" for these trials. Mr. Michols reflected Health Canada's agreement with this when he indicated that the Department is

> In the process of considering several reforms to the clinical trial review process…reforms [that] will increase the protection of research subjects participating in clinical trials and implement more efficient review processes.

Mr. Michols went on to state that these proposed reforms "will include development of an audit system of clinical trials with regard to compliance with international guidelines on the conduct of clinical research." Mr. Michols added that the implementation of an audit system "will ensure that research in Canada is conducted in accordance with these high [international] standards, and increase the integrity of data generated in support of drug marketing applications." He then noted that such a move would require regulatory change and that the Minister of Health is proposing to make those changes within two months. Mr. Michols did not clarify what kind of audit the Department has in mind nor did he offer any reasons why this should require regulatory change.

When questioned as to why an audit procedure is still not in place five years after this incident came to light, Mr. Michols suggested that the problem was "one of resources and priorities." In further testimony, he indicated that those resources will be made available to the Department. He concluded by stating that "now is the time to do it." The Committee is relieved to learn that the Department intends to take action and recommends:

That Health Canada independently develop an audit system to monitor clinical trials of unlicensed drugs randomly and at regular intervals;

a) That Health Canada proceed to make the necessary regulatory changes in order to implement this audit system;

b) That Health Canada develop a timetable for the implementation of an audit system to be used to monitor clinical trials. This timetable should include benchmarks for the completion of various components of this process and should be submitted to the House of Commons Standing Committee on Public Accounts no later than 31 March 2000; and

c) That Health Canada describe, in its Plans and Priorities document for fiscal year 2000 – 2001, the audit system it proposes to implement and the human, technological, and financial resources it intends to dedicate to it.

Mr. Michols indicated that Health Canada was also considering other, unspecified, reforms to the clinical trials review process. The Committee believes that these proposals should be made available to Parliament in order that Parliament may review and comment on them and, where appropriate, support their timely adoption. The Committee therefore recommends:

That Health Canada include a discussion of the proposed overall changes that it is considering to the clinical trials review process in its Departmental Plans and Priorities document for fiscal year 2000 – 2001.

Because the Committee sincerely hopes that the implementation of an audit system and other reforms will help prevent a situation similar to the one reported in this audit note, it also recommends:

That Health Canada include reports on its audits of clinical drug trials, as well as the outcomes generated by other reforms to the clinical trials review process, in its annual Departmental Performance Reports, beginning with the Report for the period ending 31 March 2001. Where appropriate, a discussion of measures taken to correct problems brought to light by audits and other measures must also be included.

The results that were reported in this audit note and the evidence provided by witnesses raise a number of serious questions about Health Canada's role in drug development and licensing. Accordingly, the Committee recommends:

That a Standing Committee of the House of Commons be given the task of reviewing the manner in which drugs are developed, tested, and licensed for sale in the Canadian market.

Conclusion

The Committee places high importance on the health and safety of men and women in Canada's armed forces and, indeed, on the health and safety of all Canadians. Canadians expect that Health Canada will take all reasonable measures to ensure that the drugs that are offered for sale on the Canadian market are safe and effective. Canadians also expect that the Department of National Defence will take every measure to protect the health and safety of those who place their lives at risk in the service of their country. In these matters, there can be no room for compromise, no room to assign secondary priorities, no room to allocate insufficient resources, and no room for breakdowns in inter-divisional or inter-departmental communication.

The steps taken by the Department of National Defence as well as those planned by Health Canada, although belated, are welcome. The Committee accepts the sincerity of those involved and has noted Health Canada's belief that the system is a safe one. Nevertheless, systems are only safe to the extent that their rules are adequate and are scrupulously implemented. And all witnesses agreed that a safe system could be made even safer. To repeat the words of Mr. Michols, "the time to do it is now."

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings *(Meetings No. 4 and 9)* is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Friday, 25 February 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

FOURTH REPORT

The Standing Committee on Public Accounts has considered Chapter 1 of the April 1999 Report of the Auditor General of Canada (Correctional Service Canada – Reintegration of Offenders) and the Committee has agreed to report the following:

Introduction

Correctional Service Canada (CSS, the Service) is responsible for fulfilling two crucial responsibilities in Canada's criminal justice system – the incarceration of offenders and their safe reintegration into Canadian society. In recent years the Service's fulfilment of these responsibilities has been the subject of a series of audits by the Auditor General of Canada. The House of Commons Standing Committee on Public Accounts has reviewed the results of these audits, and has, in turn, tabled several reports on the subject. These reports and the recommendations contained in them were intended to assist CSC in its efforts to become more efficient and economical while ensuring that offenders are dealt with in ways that better guarantee the safety of Canadians.

In his April 1999 Report, the Auditor General issued the results of an audit that revisited a broad range of the Service's activities whose collective purpose is the safe reintegration of prisoners. Due to its past involvement in this subject and its continuing interest in safe and effective reintegration, the Committee decided to examine the results of this recent audit. It met, therefore, with Mrs. Maria Barrados, Assistant Auditor General, and Mr. Ron Wolchuk, Principal, Audit Operations Branch, Office of the Auditor General of Canada, and Mr. Ole Ingstrup, Commissioner of the Correctional Service of Canada, on 25 November 1999.

Background

Correctional Service Canada's responsibility for reintegrating offenders into society begins on the first day of incarceration and does not end until expiry of sentence. Upon entering the prison system, offenders are assessed (Offender Intake Assessment) to determine the level of risk they pose, the level of security they require, and the right mixture of programs they need to address the factors that led to their criminal behaviour (Correctional Plan). This process of assessment, followed by development of a Correctional Plan and completion of prescribed programs should occur before an offender's first parole eligibility date. During this phase, which takes place in an institutional setting, the Service must prepare a report for the National Parole Board for use when it determines if an offender should be released on parole. The Service also reassesses offenders on an annual basis to determine if correctional programs are working and if the level of security remains appropriate. For those who have been granted parole, a second phase of the reintegration process takes place in the community. Correctional Service is responsible for monitoring offenders at this critical stage when sentences remain in effect and the potential threat to public safety is at its highest.

Previous audits have revealed shortcomings in every phase of this process. Official documentation needed by the Service to initially assess offenders was routinely late in arriving or absent altogether. Assessments and reassessments frequently resulted in the assignment of offenders to institutions whose level of security did not match the risks they posed. Programs were frequently not completed before offenders reached their first parole eligibility date with the result that many of them were staying in institutions longer than they should have. This in turn hampered reintegration, strained the capacity of the institutions to house offenders, and increased the Service's costs. Once offenders were released on parole, the Service often did an inadequate job of monitoring them. The level of resources allocated to reintegration by the Service was heavily weighted in favour of the institutional phase with the result that programs delivered in a community setting were inadequate. Communication between Service employees with reintegration responsibilities in the institutions and those outside was poor and between them collectively and CSC management no better. In summary, there was much that needed corrective action before the system could be deemed effective, efficient, economical, and above all, safe.

Observations and Recommendations

In contrast to the results of past audits, recent findings reported in the April 1999 Report of the Auditor General are encouraging. The Service has recognized that major changes are needed to its corporate culture and its processes. It has adopted an ambitious approach aimed at producing improvements in both areas. In February 1999, following the work of a task force on reintegration, three national reviews, and several simultaneous pilot projects, CSC implemented Operation Bypass in all of its regions. Its goals are to reduce duplication of tasks and information, consolidate reports on offenders, and strengthen communication and co-ordination between institutional and community parole officers.

The Service has also taken other, more immediate steps to improve the reintegration process, including:

- Strengthening its national headquarters organization, which provides overall direction and co-ordination for changes in the offender reintegration process;
- Developing and implementing an evaluation framework to assess the effectiveness of intervention programs. Under a new policy, each rehabilitation program is to have clear objectives, criteria for selecting participants, and a process for evaluating their progress. The Service is setting up panels of experts to accredit programs. Programs will then be re-accredited every five years;
- Adopting a more balanced approach to institutional and community programming;
- Improving its offender risk assessment tools and processes;
- Improving performance information concerning case management activities including an increased capacity to acquire, organize and analyse performance data in a more timely manner; and
- Making lessons learned activities and the sharing of best practices an effective part of the Service's corporate culture.

In its Report and opening statement to the Committee, the Office of the Auditor General expressed its conviction that the Service "has made a concerted effort to respond to many of [the Auditor General's] previous concerns and observations" and is "now moving in the right direction" as evidenced by the above initiatives.

Despite signs of progress, however, the Auditor General found that Correctional Service Canada has work to do in the following areas:

- more timely acquisition of official documents for offender assessment;
- more timely casework preparation to meet the offender's first parole date;

- a clear operational strategy for offender employment programs;
- better-quality offender reintegration reports for the National Parole Board; and
- improved adherence to national standards for frequency of contact with offenders in the community.

Although he was pleased with the progress made by his organization and the Auditor General's largely positive conclusions, the Commissioner of Correctional Service told the Committee that he was "in no way delighted" by the Report's findings, and that the good news in the Report "is not enough." *Mr. Ingstrup then indicated his full agreement with the Auditor General's nine recommendations and committed himself and CSC to take action on all of them.* The Commissioner also agreed to make CSC's action plan developed to address the recommendations available to the Committee and it awaits the receipt of this document within the near future.

The Committee welcomes the Commissioner's acceptance of the audit's findings and recommendations, and his determination to use them to improve the reintegration of offenders. The Committee wishes to assist Correctional Service of Canada in its efforts and, in that spirit, offers several observations and recommendations of its own.

As noted above, it is important that the Service receive relevant documentation when an offender first enters the system. CSC has determined that this set of documents consists of an official version of the offence that was committed (court documents, police report or pre-sentence report), police records detailing the offender's criminal activity, and a Post-Sentence Community Assessment that covers issues such as the offender' s employment history, family relations, behavioural problems and victim information.

If these documents are not received on time, the result is a chain reaction that spreads throughout the reintegration process, undermining its effectiveness and potentially exposing society to unnecessary risk. Knowledge, therefore, that approximately one quarter of these documents are not received within the Service's own 56-day time frame and that "parole officers were completing many Offender Intake Assessments before receiving either the desired police reports or the Post-Sentence Community Assessments (or both)," is of considerable concern to the Committee.

The Service has agreed with the Auditor General's recommendation that it look for ways to improve timeliness of receipt of documents, but has added that it "has no authority to compel" outside agencies to provide information in a timely manner. This overlooks the Auditor General's earlier observation that between July and September 1998, less than 40 percent of the Post-Sentence Community Assessments met the Service's 30 to 45 day standard for preparation. These documents do not come from outside agencies; they come from within the Service itself. The Service needs to make improvements in an area that it – and no one else – is supposed to control. The Committee notes the Commissioner's determination to assert this control and recommends:

> **That Correctional Service develop and implement an action plan to ensure that all Post-Sentence Community Assessments are prepared and received within its standard. This action plan should include the means to be used and a target implementation date, and should be submitted to the Standing Committee on Public Accounts no later than 30 April 2000. Progress in implementing this plan should be reported in the Service's Performance Reports beginning with the Report for the period ended 31 March 2001.**

While the Committee is aware that the Service cannot compel other agencies to provide needed information, it does not believe that this should stand in the way of other measures that are available. Indeed, the Committee observes that in four of its regions, the Service has memoranda of understanding and agreements with provincial governments and municipalities for the timely receipt of documents. With this in mind, the Committee recommends:

> **That Correctional Service Canada make a concerted effort in all of its regions to obtain the co-operation of outside agencies in order to secure the timely receipt of documents required for Offender Intake Assessments and that it report to Parliament on the progress made in this regard in its annual Performance Report beginning with the Report for the period ending 31 March 2001.**

Once initial assessments are completed, a Correctional Plan is drawn up. Offenders must complete the rehabilitation programs prescribed by the Plan before date upon which they first become eligible for parole. The Auditor General observes in his Report that "failure to prepare offenders in time for their first parallel eligibility date may adversely affect their chances for safe reintegration." He then reports that as of November 1998, 21 percent of incarcerated offenders had not had a National Parole Board hearing and were past their eligibility date for either day parole or full parole. While this may be the result of the offender's own preferences, it may also be the consequence of the Service's inability to prepare the offender's case in time.

In his examination of the Service's case management process, the Auditor General found that CSC often fell short of its own time standards. About one third of offenders with two-to-three-year sentences were not assessed within the CSC's standard of 56 days. In 1996, the Auditor General estimated that on average, low-risk/low-need offenders were prescribed three rehabilitation programs and that 105 days was the shortest time in which these programs could be completed. In 1998, only 60 days were available for completion of this process before the earliest eligibility date. The goal that has been set for Operation Bypass is 106 days for the completion of programs, assessments, and the preparation of reports in time for the National Parole Board's requirement that it have case documents at least 21 days before a parole hearing. This goal, while ambitious, leaves virtually no room for delay or unforeseen events. Consequently, the Committee recommends:

> **That Correctional Service Canada redouble its efforts to ensure that a maximum amount of time is available for the effective completion of intake assessments, Correctional Plans, rehabilitation programs, and reports prior to offenders' earliest parole eligibility dates. The progress achieved by these efforts should be presented in the Service's Performance Reports, beginning with the Report for the period ending 31 March 2001.**

In his Report, the Auditor General also draws attention to the poor quality of the reports prepared by correctional officers for use by the National Parole Board. In 1997, the Service found that of over 3,000 documents it examined, 48 percent to 78 percent met quality standards. The Auditor General conducted a test of his own and discovered that 11 percent were poor, a number that increased to 16% when it came to reports on high-risk offenders.

On April 22, 1997, when he addressed this Committee, Mr. Ingstrup testified that the Service was "implementing a process in which line staff know what the quality expectations are, and apply them all the time." He went on to tell the Committee that "line supervisors will be expected to review staff work using CSC's quality standards, and they will have to give immediate, practical, constructive feedback." The Committee is disappointed that these efforts have not resulted in any substantial improvements and recommends:

> **That Correctional Service Canada provide thorough training to its correctional officers in the preparation of reports submitted to the National Parole Board, that it ensure that its senior staff develop procedures that will ensure the production of reports that meet the standards for quality that both it and the National Parole Board demand. The Service should report on the progress that has been made in this regard in its Performance Reports, beginning with the Report for the period ending 31 March 2001.**

There is a general recognition that programs designed to enhance the chances of an offender finding useful employment once he or she leaves a correctional facility is a key to effective reintegration. Although the Auditor

General notes several improvements since his last audit, he observes that "little information is available on the cost effectiveness of various types of employment programs," and that "uncertainty remains about the relative priority" of these programs and their role in effective reintegration. He goes on to report that the employment needs of offenders are not adequately matched with the programs that are available under CORCAN, a special operating agency within the Service. The Committee strongly believes that meaningful employment is a crucial element in preventing recidivism and that offenders must leave institutions with the right skills to get that kind of employment. The Committee therefore recommends:

> **That Correctional Service Canada regularly assess the cost effectiveness of its employment programs, that it make adjustments that are indicated as a consequence of that assessment, and that it report both the assessment results and program adjustments to Parliament in its annual Performance Reports, beginning with the Report for the period ending 31 March 2001.**

The Committee also recommends:

> **That, by 15 September 2000, Correctional Service Canada develop and implement a strategy designed to ensure that offenders are provided with employment programs that accurately match their employment needs and that it submit this strategy to the Standing Committee on Public Accounts prior to that date.**

Under current arrangements, most offenders are eligible for release prior to the expiry of their sentences. If an offender leaves a correctional institution under these circumstances, he or she serves out the remainder of the sentence in the community and under the supervision of CSC. The Auditor General reports that Service is now devoting more attention to its community supervision responsibilities. However, he indicates that in February 1998, the Service found that it was still having problems in making sure that there was sufficient contact between its personnel and offenders under community supervision. In particular, he noted that the percentage of offenders who were not contacted with the required frequency varied from a low of 11 percent to a high of 38 percent across CSC's five regions. The Service planned to implement a community workload formula in June 1999. This formula is intended to ensure that community parole officers will have enough time to satisfy the Services standards for contact with offenders under supervision in the community. Parliament and Canadians must have the assurance that offenders are being adequately supervised at this crucial stage and the Committee therefore recommends:

> **That Correctional Service Canada include data on the results achieved from the use of its new community workload formula in its annual Performance Report beginning with the Report for the period ending 31 March 2000.**

The Committee has some pronounced concerns about the efficacy of the Service's offender risk assessment instruments, as well as their use. In their questioning of Mr. Ingstrup, several Committee members made reference to recent escapes from correctional institutions; it was thought that inadequate assessment tools or improper use of them, or both, were the cause of these incidents.

The Service makes use of the Custody Rating Scale to determine the appropriate institutional security level in which to place an offender. Parole officers have the authority to overrule the results obtained by the CRS and put an offender in a different security level. This process is known as an override and the Committee has expressed concerns in the past that the level of these overrides was excessive. The Service has responded to these concerns by adjusting the CRS in June 1998 to so that 34 percent of offenders would be placed in minimum-security institutions (previously the percentage was set at 15 percent). While this has had the effect of lowering the level of overrides, the Committee questions whether or not this was the right approach to use. Although the Auditor General reports that he found no evidence of a significant increase in the number of escapes as a result, the Committee believes that this possibility requires further investigation. The Committee accordingly recommends:

> **That Correctional Service Canada closely monitor the number and frequency of escapes among offenders who have been assigned to minimum-security institutions on the basis of assessments derived from its Custody Rating Scale and that it report this information to Parliament in its annual Performance Reports beginning with the Report for the period ending 31 March 2000.**

The Committee also takes note that while the Service has tested the scientific basis for its risk assessment instruments, it has not thoroughly tested to determine whether its parole officers will use the instruments in a consistent and predictable way. The Committee firmly believes that this gap in testing needs to be addressed and recommends:

> **That Correctional Service Canada take immediate steps to test the reliability of its risk assessment instruments in order to determine if they are used by its staff in a consistent and predictable manner.**

The Commissioner of Correctional Service Canada has indicated that it intends to correct many of the problems identified by this audit, as well as earlier audits, through its Operation Bypass initiative. This initiative was implemented by the Service in all of its regions in February 1999 and thus it has not been in operation long enough to provide results that the Committee could examine. The Committee believes that Parliament must be in a position to assess the outcomes generated by this initiative against its costs and objectives. The Committee therefore recommends:

> **That Correctional Service Canada include a detailed discussion of the results achieved by Operation Bypass in its Performance Report for the period ending 31 March 2000. This discussion must link the initiative's results with its objectives and the costs involved in its design, implementation, and operation. Clear references to those areas in which the initiative is intended to fulfil recommendations made by the Auditor General of Canada must also be included.**

Under its Financial Information Strategy (FIS), the government of Canada intends to move to full accrual accounting. This transition, which is to be completed by 2001, should result in better financial information for use by departmental managers in day-to-day decision making. The Committee endorses the Strategy and expects that it will be implemented properly and on time. In keeping, therefore, with the Committee's belief that the use of financial information generated by the FIS will result in better program design, delivery, and effectiveness, the Committee recommends:

> **That Correctional Service Canada meet its FIS implementation target, that it ensure that the financial information generated as a result be fully incorporated into every aspect of its planning, program design, and performance measurement and reporting processes, and that it include this information and the outcomes generated by its use in its Performance Reports, beginning with the Report for the period ended 31 March 2001.**

Conclusion

In her closing comments to the Committee, Ms. Barrados stated that the Office of the Auditor General of Canada is "pleased at how seriously the Service is taking [the Office's] audit report and how diligently they are making an effort to act on the issues" raised by the Office. The Committee, as well, appreciates the Service's acknowledgement that it has more work to do and its positive reaction to the Auditor General's Report and recommendations. The Committee expects that its own observations and recommendations will be accorded similar treatment.

Correctional Service of Canada plays a key role in the criminal justice system of Canada. Canadians rely on the Service to rehabilitate offenders and to ensure that when they return to society, it is under circumstances that are safe. The Committee is under no illusions that this is an easy job. However, awareness that this is so points to the absolute necessity that this job be done well at every step of the way. The Committee will watch with great interest as Correctional Service moves to put in place the measures it has promised to see if these measures produce the hoped-for results.

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (*Meetings Nos. 6 and 13*) are tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Friday, 25 February 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

FIFTH REPORT

The Committee, after considering the *Public Accounts of Canada 1998-99*, has agreed to present the following report.

Introduction

The *Public Accounts of Canada* summarize the operations of the federal government during its fiscal year, which ends on March 31 each year. They include, among other information, statements of the government's assets and liabilities, revenues and expenditures, accumulated deficit, changes in financial situation, and transactions.

The financial statements are submitted to the Auditor General of Canada, who audits them and provides an independent opinion on them. The statements, along with the Auditor General's opinion, are tabled in the House of Commons as the *Public Accounts of Canada*, and are referred to the Standing Committee on Public Accounts for consideration.

On October 26, 1999, the *Public Accounts of Canada 1998-99* were tabled in the House and referred to the Standing Committee on Public Accounts. On November 16, 1999, the Committee met to consider them. Denis Desautels, FCA, Auditor General of Canada; Ron Thompson, Assistant Auditor General; and John Hodgins, Principal, Audit Operations, appeared before the Committee on behalf of the Office of the Auditor General. J. Colin Potts, Deputy Comptroller General; Richard Neville, Assistant Secretary and Assistant Comptroller General; and John Morgan, Director, Government Accounting Policy, appeared on behalf of the Treasury Board Secretariat.

This Report contains the Committee's findings and recommendations following that meeting.

Findings and recommendations

Under section 6 of the *Auditor General Act*, the Auditor General shall examine the financial statements required under the *Financial Administration Act* and contained in the *Public Accounts*, and

> shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.

The Auditor General is therefore required to express an opinion on the following aspects of these statements.

Fairness: Do the financial statements present the information fairly?

Compliance: Have the financial statements been prepared in accordance with stated accounting policies of the federal government?

> **Consistency:** Have the accounting policies of the federal government been applied on a basis consistent with that of the preceding year?

In his introductory comments, the Auditor General made the following statement:

> "In the previous three years, I expressed serious concerns with significant transactions that the government reflected in the financial statements at year-end. This year, I have expressed no such concerns and my audit opinion on the government's 1999 financial statements contains no reservations. I'm therefore able to inform parliamentarians that these statements present fairly the government's overall financial situation as at March 31, 1999".

An unqualified opinion on the government's 1998-99 financial statements gives parliamentarians confidence in comparing credible 1998-99 data with the Finance Canada forecasts contained in the *Economic and Fiscal Update*. The Auditor General emphasized that the annual financial statements and his audits of them constitute an important link in the accountability chain.

The Auditor General also asked the Committee to consider his comments on the following supplementary information:

- what the Auditor General's audit opinion means;
- accounting for the $3.5 billion supplement to the Canada Health and Social Transfer (CHST);
- the Financial Information Strategy (FIS);
- the persistent and growing problem of offsetting expenditures against revenues (netting);
- timely financial statements;
- the Debt Servicing and Reduction Account; and
- improvements in this year's Annual Financial Report.

The Auditor General also announced that his next *Annual Report* to Parliament would include a separate chapter on the FIS, as well as an audit finding on the financial statements of the Employment Insurance (EI) Account.

In the *Public Accounts of Canada 1998-99*, the Auditor General expressed the following opinion on the financial statements of the EI Account:

> "[T]hese financial statements present fairly, in all material respects, the financial position of the Employment Insurance Account as at March 31, 1999 and the results of its operations and its cash flows for the year ended in accordance with the accounting policies set out in Note 2 to the financial statements."

The Auditor General added:

> "I wish to draw to your attention that the surplus of the Employment Insurance Account has increased during the current year by $7.3 billion, to $21 billion. Under the *Employment Insurance Act*, and as described in Note 5 to the financial statements, premium rates should be established at a level sufficient to ensure that there will be enough revenue over a business cycle to pay the amounts authorized, while

> maintaining relatively stable rates throughout the cycle. The Act does not define the level of surplus or reserve deemed sufficient to meet the objective."

In the Auditor General's opinion, given the present level of the EI Account surplus, it would be advisable to clarify and disclose the factors to be used in setting an appropriate level of reserve.

The Committee was particularly interested in the transparency of the processes for setting EI premiums and EI Account surpluses. One issue it raised was whether any EI Account surplus represented a federal government liability to Canadian taxpayers.

The Committee asked the Auditor General a number of questions on this issue. The Auditor General pointed out that the EI Account is not actually an account payable but more of a tracking account, to keep track of how much money has come in (including premiums, fines, penalties, interest and reimbursements) and how much money has been paid out (benefit payments). The monies coming in are paid into the Consolidated Revenue Fund and credited to the EI Account and the monies paid out are disbursed out of the Consolidated Revenue Fund and debited against the EI Account. Asked whether an EI Account surplus represented a liability, the Auditor General answered:

> "When we talk about a surplus of $21 billion, it simply says the government has collected $21 billion more than it's paid out on a cumulative basis. So there's no debt created to anybody by that operation."

The Committee also considered the process for setting EI premiums. Questioned on this point, the Auditor General shared his concerns about this process, stating that the process lacked transparency, and that the EI Commission of Canada should disclose to Parliament the main factors it took into account in setting the level of reserve accumulated in the EI Account.

The Auditor General added:

> "Actuarial studies now published, suggested that a surplus of between $10 billion and $15 billion would be sufficient. Not only is there a need for ongoing transparency; I think there is a need for a better explanation of why premium rates have been set that have produced a reserve of $21 billion, when the Department's actuary stated that a surplus of between $10 billion and $15 billion would be sufficient."

Specifically, under section 66 of the *Employment Insurance Act*, the EI Commission sets the premium rate "with the approval of the Governor in Council on the recommendation of the Minister and the Minister of Finance". The Chief Actuary's report on the EI premium rate is published when the Human Resources Development Minister and the Finance Minister jointly announce the rate. The joint statement contains information on the rate but no other indication of what factors the EI Commission took into account in setting it.

Since the *Employment Insurance Act* is not clear about the allowable level of the EI Account surplus or reserve, no one can determine whether the EI Account surplus is excessive. The *Act* provides only that the Commission is to set a premium rate that, over a business cycle, will ensure that there is enough revenue to pay the amounts authorized to be charged to the EI Account, and will maintain relatively stable rate levels.

The Committee therefore makes the following recommendation:

> **That Human Resources Development Canada disclose to Parliament all the factors used by the EI Commission in setting the EI premium rate and the level of reserve required in the EI Account.**

The Committee then questioned the Auditor General about progress made on the FIS and whether the government would be able to implement full accrual accounting by the April 1, 2001 target date.

The Auditor General said it was quite important to meet the target date and not let it slip; he added that other countries had managed to carry out similar changes in a relatively shorter time frame.

According to the Auditor General, the government might need to re-examine whether it was devoting enough skilled, experienced resources to be able to implement FIS fully and on time.

The Auditor General added that, if FIS implementation is in danger of being delayed, the government could consider partnerships with the private sector in order to speed up conversion to full accrual accounting.

In closing, the Auditor General noted that FIS implementation had the commitment from Deputy Ministers and heads of agencies, but that this commitment was somewhat uneven and could be strengthened; he suggested that a firm commitment to full FIS implementation be obtained from each Deputy Minister.

In his opening presentation, concerning FIS, Mr. J. Colin Potts stated:

> "It's also very important to the government to see that the Auditor General fully supports our goal of implementing the Financial Information Strategy or FIS in 2001-2002. In his observations, he has recognized the progress that we have made to date. We realize that, while there is considerably more work remaining to be done to achieve this goal, it will be well worth the effort. We believe the end result will significantly improve financial reporting within departments and on a national basis, and over time lead to more effective decision making across government. The Auditor General has noted that he will have more to say on this topic when he tables his report at the end of November. Should the Committee so desire, Mr. Chairman, we would welcome the opportunity to meet with the Committee on this subject, following the tabling of his report."

The Deputy Comptroller General added:

> "However, the transition to full accrual accounting is not without risks. It involves considerable effort and change to our processes and systems as well as training for both financial and non-financial staff. Over the next three years we will manage these risks to ensure as smooth a transition as possible. This transition involves changes to a number of accounting policies. The Auditor General agrees with our strategy to make all the necessary policy changes in one fiscal year, rather than spread them out over a number of years".

The Committee asked the Deputy Comptroller General if the FIS initiative was progressing on schedule.

Mr. J. Colin Potts reminded the Committee that the FIS consists of three elements: changes to accounting policies and procedures, the implementation of new accounting systems in all departments and agencies, and personnel training. With respect to the first phase, i e, the conversion of accounting policies and procedures to full accrual accounting, the Deputy Comptroller General said that the basic policies are in place but that work remains to be done to help the departments in interpreting the new policies and procedures.

The second element, that of replacing the accounting systems, is being implemented over a three-year period. The Deputy Comptroller General told the Committee that since April 1, 1999, the introduction of new central systems has been completed on schedule. Some departments have already converted their systems, while many others are expected to complete their conversion before April 1, 2000. The FIS requires the conversion of all federal government accounting systems by the deadline of April 1, 2001. Mr. J. Colin Potts conceded that this is a considerable challenge, but said he thinks it can be achieved on schedule.

The third and final element in the FIS is training for personnel. The Deputy Comptroller General admitted that the training of financial and non-financial personnel in full accrual accounting remains a major challenge, but said that there are training programs already in place and that he anticipates continuing and even stepping up the training effort over the next 18 months.

The Committee recognizes the importance for the government of the FIS initiative and considered the witnesses' evidence very carefully. Your Committee therefore makes the following recommendations:

> **That the Treasury Board of Canada Secretariat take all necessary steps to ensure full implementation of the Financial Information Strategy as scheduled, in particular by making sure that the Government allocates enough skilled and experienced resources to make a success of the initiative, and that it consider partnerships with the private sector in the event that resources, time or talent prove insufficient;**
>
> **That the Treasury Board of Canada Secretariat develop a system of incentives to ensure a strong commitment on the part of senior management in federal departments, agencies and Crown corporations to full implementation of the Financial Information Strategy as scheduled; and**
>
> **That the Treasury Board of Canada Secretariat monitor the FIS initiative to ensure that all stages are completed in a timely manner, to identify major risk factors that could compromise implementation of the initiative and to propose corrective measures, and that it report regularly to the Standing Committee on Public Accounts and therefore to Parliament on the progress of the Financial Information Strategy.**

Finally, the Committee considered the question of delays in producing federal government financial reports. The section entitled "Matters Requiring Continuing Attention" in the *Public Accounts of Canada 1998-99* raised the issue of timely release of financial statements. In general, federal departments, agencies and Crown corporations take very seriously their responsibility to submit their financial statements in a timely manner so that these can be consolidated into the Public Accounts. However, according to the observations of the Auditor General, "other organizations are not as co-operative". This lack of co-operation delays the release of the Government's financial reports. The Auditor General recommended "a strict enforcement of department and agency reporting dates, so that timeliness will improve--both in the current process of preparing financial statements and in the framework envisaged under FIS". (*Public Accounts of Canada, 1998-99*, page 1.38)

In his evidence before the Committee, the Deputy Comptroller General had this to say:

> "Another matter raised by the Auditor General is improvement in the timeliness of our financial reporting. We agree with this goal. However, significant improvement of the magnitude referred to by the Auditor General will only be possible with the successful implementation of the infrastructure supporting the Financial Information Strategy. In the interim we will continue to encourage departments to place additional emphasis on meeting our targets for reporting purposes. I would like to add that despite the considerable extra efforts being devoted by departments to implementing new systems in the transition to the Financial Information Strategy, we were able to finalize the Public Accounts within six months of our financial year-end. This was earlier than the previous year."

The Committee questioned witnesses about what the best achievable deadline would be for preparing federal government financial statements and also asked them to identify laggard departments and agencies for the Committee.

According to Mr. J. Colin Potts, it may be possible, further to the recommendations of the Auditor General, to prepare the consolidated financial statements within a three-month period. The Deputy Comptroller General said that this would be a desirable and achievable target.

As for identifying departments, agencies and Crown corporations that submit their financial statements late, the Deputy Comptroller General said that he did not have this information but stressed that the Treasury Board Secretariat was doing everything in its power to make sure that departments and agencies submit their financial statements in a timely manner to the central agencies responsible for preparing the Public Accounts.

The Committee therefore makes the following recommendation:

That the Treasury Board of Canada Secretariat develop a system of incentives to ensure that all federal departments, agencies and Crown corporations prepare their financial statements within the prescribed three-month period, and that it report regularly on the progress of this initiative to the Parliament of Canada and the Standing Committee on Public Accounts through the performance documents.

The Committee then asked the Auditor General to identify the departments that do not meet the deadline. The Auditor General said that he did not have this information at his disposal at that moment but that he would provide it to the Committee at a later date.

In a letter to the Committee dated 2 December 1999, the Auditor General described the process of preparing and auditing the Public Accounts. He also discussed the overall departmental adherence to the Receiver General's mid-June deadline for submission of year-end financial information. The Auditor General indicated that a significant number of departments had either missed that deadline or presented incomplete information. Although the letter did not include an exhaustive list, it did provide the following examples of departments that, for various reasons, did not comply with the deadline: Agriculture and Agri-Food, Finance; Health, National Defense; National Revenue; Public Works and Government Services; and the Treasury Board Secretariat.

Given their responsibility in co-ordinating the implementation of the Financial Information Strategy (FIS), the central agencies, particularly the Department of Finance and the Treasury Board Secretariat must show leadership by setting a strong example for other departments to follow in terms of submitting their final departmental financial information before or at the Receiver General's deadline.

The Committee therefore recommends:

That all central agencies in charge of co-ordinating the Financial Information Strategy, particularly the Department of Finance and the Treasury Board Secretariat, submit their final departmental information before or at the Receiver General's deadline, and that they report their progress in meeting the deadline to Parliament in their annual Performance Reports, beginning with their Reports for the period ending 31 March 2001.

Conclusion

The Standing Committee on Public Accounts recognises the effort that the Government of Canada puts into preparing its consolidated financial statements, and it is encouraged to see that for the fiscal year ending March 31, 1999, the Auditor General has given an unqualified opinion on the financial statements contained in the *Public Accounts of Canada, 1998-99*. However, the Committee remains aware that there are many challenges and issues to resolve in the preparation of the government's consolidated financial statements. These include in particular the transparency of the way the level of the reserves in the Employment Insurance Fund is determined, the full implementation of the Financial Information Strategy by the target date, the deadlines for submitting financial data, among others . The Committee urges the Government of Canada, and in particular the Treasury Board of Canada Secretariat, to accept their full responsibilities in order to ensure the accuracy, consistency and uniformity of financial information provided to the Canadian public and contained in the Public Accounts of Canada.

Pursuant to Standing Order 109, your Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (*Meetings N^{os} 3, 10, 13)* are tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Wednesday, 22 March 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

SIXTH REPORT

The Standing Committee on Public Accounts has considered the *Performance Report of the Office of the Auditor General of Canada* for the period ending 31 March 1999, and the Committee has agreed to report the following:

Introduction

The Standing Committee on Public Accounts is a strong advocate of departmental Performance Reports as a means of conveying information to Parliament. In its reports to the House of Commons, the Committee frequently recommends that departments and agencies that have been audited include information related to those audits in their performance documents. In this way, Parliament and its Committees are advised of difficulties in the delivery of programs and services and, ideally, of corrective measures that have been taken and their results. The Committee strongly believes, as well, that departmental Performance Reports offer Parliament, departments, and Canadians an insight into government programs and services in terms of their ability to achieve their objectives in a way that is effective, economical, and efficient.

In the eyes of the Committee, accountability and the opportunity to exercise it are indispensable characteristics of any functioning democratic arrangement. In a democracy, decisions are made and actions taken on the basis of authorities conferred by citizens. Those in government, whether elected or appointed, act on the behalf of others using powers and funds that have been granted them. They are therefore in a position of stewardship and must use resources wisely and in a manner that accords with the general will of society. Since those in democratic governments act on behalf of others, it follows that they must be accountable to them as well. In order for this to take place, Parliament – which holds to account those who govern on behalf of citizens – must have a clear understanding of how public funds are spent and with what effect. Performance Reports are meant to provide this kind of information and are thus a key element, along with the Public Accounts of Canada, departmental Plans and Priorities Reports, and the Estimates, in the accountability of democratic governance at the federal level in Canada.

Performance Reports also represent a valuable tool in the hands of those in government who deliver key programs and services. Provided that the right approach is taken, the exercise of setting goals and measuring results gives departments and agencies the ability to improve the efficiency, economy, and effectiveness of their operations. Therein lies the key to government that costs less and works better.

As a consequence of the importance that it attaches to accountability, and measuring and reporting performance, the Committee decided to review the *Performance Report of the Auditor General of Canada* for the period ending 31 March 1999. On 23 November 1999, the Committee met with the Auditor General of Canada, Mr. Denis Desautels, FCA, and Mr. Michael McLaughlin, Deputy Auditor General, Corporate Services, to discuss the performance of the Office of the Auditor General of Canada during fiscal year 1998 – 99.

Observations And Recommendations

There are three fundamental ways in which to approach a performance report. The first and most obvious is to examine performance itself. Here, broad issues leading to good performance should be taken into account. Did that performance meet, exceed, or fall short of stated expectations? What lessons have been learned as a consequence? Have steps been taken to improve performance that was disappointing? Have methods that have produced successful performance in one area been incorporated in others? Does the performance that is reported go beyond a simple concentration on activities and link those activities with the outcomes or results produced and resources consumed? And do those outcomes correspond with the goals that were established? In short, performance reporting should start with outcomes to be achieved, results to be obtained, and set the direction for improvement in areas of less than expected performance.

The second approach involves a consideration of performance goals and indicators themselves and the process involved in selecting them. This is crucial because the current performance-reporting regime is based largely on self-assessment. Accordingly, the entity that reports its performance also defines the goals to be achieved, establishes the indicators used to measure progress toward those goals, assesses the outcomes, and reports the results. A review of an entity's Performance Report should also, therefore, include an examination of the appropriateness of the goals and indicators used, as well as the selection process involved.

Finally, attention must be paid to the way in which performance information is presented in terms of its clarity and consistency. This is particularly so, given that Performance Reports are not intended to be 'stand alone' documents. Instead, they are meant to be used in close conjunction with other accountability documents in general and with the Estimates documents in particular.

Performance Reports are part of the cycle that begins with the tabling of the Estimates and the departmental Plans and Priorities Reports in the spring. The latter inform Parliament of departmental objectives, how they will be attained, and the mix of resources needed to support their achievement. The next step occurs with the tabling of the Performance Reports in the fall that tell Parliament if the goals for the previous fiscal year have been met, how they have been met, where they have fallen short, and the costs involved.

Performance Reports are also meant to be used in conjunction with the Plans and Priorities Reports and Estimates for the ensuing fiscal year so that parliamentarians can make informed judgements using historical information and contextual analysis regarding future spending and programs. In order to attain their full potential, therefore, Performance Reports must be crafted in a way that facilitates comparison with the other documents in the cycle. In addition, there should also be comparability between a department's performance documents of one year and those of preceding years. If all of these prerequisites are met, then a seamless flow of comprehensible information is made available to Parliament for use in its deliberations.

The Performance of the Office of the Auditor General

The Committee deeply values the contribution made by the Auditor General and his Office to the work of Parliament and the ability of the Office to support government accountability at the federal level. The Committee's appreciation is supported and enhanced by the information contained in the *Office of the Auditor General's Performance Report* for the period ending 31 March 1999. Among its many achievements, the Office has accomplished the following during this period:

- A favourable government response, in the 1999 Budget, to some of the issues raised in the Auditor General's observations on the government's financial statements for 1997–98, including recommendations on such issues as accounting for contingent liabilities for Aboriginal claims, the move to full accrual accounting, and the Debt Servicing and Reduction Account;

- A reduction in the number of hours needed to conduct financial audits of Crown corporations and other entities, and a reduction in the costs of those audits. Although the reductions were not as deep as expected, they were significant none-the-less;

- A reduction in the average cost of value-for-money audits that met expectations and came as a result of better attention to planning and managing the costs, timeliness and results of audits;

- Full implementation or satisfactory progress regarding 57 percent of the Office's recommendations and observations contained in its Reports over a five-year period from 1993 to 1997; and
- The identification of opportunities to reduce costs or maximize resources as a consequence of value-for-money audits. An example cited concerned inventory reductions totalling more that $480 million resulting in a potential annual saving of $100 million by four departments following a 1996 audit.

These are but a few of the Office's many important achievements.

Ideally, Performance Reports should give special attention to areas in which performance did not achieve expectations. The Auditor General's Performance Report touched on a few of these areas, for example:

- Responses from a survey of Members of Parliament showed that Parliament's awareness of the Office's work in the area of the environment and sustainable development could be improved; and
- A lower than expected reduction in the number of hours needed for financial audits, although the Committee views favourably the progress that has been made.

The emphasis in this Performance Report is weighted in favour of the achievements of the Office and it is assumed that this is an accurate reflection of the results of its work. However, the Committee believes that in order to be truly useful, Performance Reports must also display candour about problems and challenges facing departments and agencies. This gives Parliament the opportunity to develop a better appreciation of the environment in which departments and agencies operate. Rather than giving Parliament a chance to assign blame, candour regarding problems holds forth the possibility of recognizing constructive solutions. With this in mind, the Committee recommends:

That in its future Performance Reports, the Office of the Auditor General of Canada clearly indicate those areas in which its performance and achievements have fallen short of expectations. Explanations for the cause of such shortcomings and a discussion of action plans to address the problem areas identified should be included.

In his statements to the Committee, the Auditor General recognized that while his Office makes many recommendations, it is incumbent on others to implement them. Thus the credit for subsequent outcomes must be shared. Conversely, this should also apply to instances in which undesired outcomes have resulted. In its Performance Report for the period ending 31 March 1998, the Office included a short section on unintended results. This section was absent from this recent report, perhaps because the Office was unaware of any unintended consequences. Nevertheless, the Committee believes that this is an important contribution towards understanding performance and therefore recommends:

That in its future Performance Reports, the Office of the Auditor General should include a discussion of unintended results, where appropriate. In the absence of being aware of any unintended results, a clear statement to that effect should be provided.

The Committee was encouraged to learn that over the five-year period from 1993 to 1997, 57 percent of the Auditor General's recommendations have been either fully implemented or there has been satisfactory progress. This testifies to the ability of departments and agencies to receive and respond to the Auditor General's advice as well as the ability of his Office to identify problem areas accurately and to provide workable solutions. The Committee is concerned, however, about the lack of progress on the remaining 43% of recommendations and like the Auditor General would like to see a higher rate of implementation. The Committee is anxious to assist in efforts to increase implementation and therefore recommends:

> **That in future, Performance Reports of the Office of the Auditor General provide additional detail, in table format, concerning those recommendations and observations whose implementation is below expectation. A list of departments and agencies that have demonstrated low rates of implementation, and the major areas in which implementation has been problematic should be included.**

Performance Objectives and Indicators

The Auditor General presents the objectives and indicators for his Office in Exhibits 2 and 3 of his Performance Report. Exhibit 2 provides a succinct description of the Office's key results commitments. Exhibit 3 elaborates on these commitments and organizes them according to the Office's five business line components.

The Committee finds that these goals are in conformity with the Office's legislative mandate and the expectations of the Office's principal stakeholder, Parliament. The indicators that are used to measure the achievement of the goals also appear appropriate and unambiguous.

The process of selecting and articulating goals and indicators is of vital importance because it influences the clarity and relevance of the results that are reported. In volume I of a document entitled *Managing for Results 1999*, Treasury Board reports that "an increasing number of departments is … undertaking external consultations to ensure that results and indicators are articulated in a way that is meaningful to Canadians." (3) The Office of the Auditor General of Canada serves Parliament and the Committee appreciates hearing from the Auditor General that his Office takes Parliament's input into consideration when establishing its upcoming priorities. Indeed, the Office has shown great sensitivity to Parliament's wishes in light of its need to operate in an independent manner. Furthermore, as the Auditor General noted, a review of the Office's Plans and Priorities document gives this Committee an opportunity to discuss the Office's objectives and the means provided to determine their attainment. Since goals and indicators are subject to ongoing adjustment, the Committee recommends:

> **That the Office of the Auditor General continue to consult parliamentarians on an ongoing basis when it is in the process of adjusting and refining its goals and indicators. Particular attention should be paid to the need to ensure that these goals and indicators address the needs of Parliament.**

In his opening statement, the Auditor General told the Committee that other legislative audit offices in Canada and around the world are confronting the challenge of establishing performance expectations and reporting on key achievements. The Committee believes that it would be beneficial for the Office to work with its counterparts elsewhere in meeting this challenge and thus recommends:

> **That the Office of the Auditor General consult closely with legislative audit offices in other jurisdictions within Canada and elsewhere in order to meet the special challenges they confront in setting expectations and reporting results.**

The Committee notes that the Office is already working with its counterparts in the provinces in order to develop a common set of performance indicators for comparative purposes. The Committee fully supports this initiative and therefore recommends:

> **That the Office of the Auditor General continue to work with other legislative audit offices in Canada in order to develop a common set of performance indicators to be used for comparative purposes; and**

> **That the Office of the Auditor General include a general discussion on the progress towards achieving a set of comparative indicators in its future Performance Reports.**

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(3) Treasury Board of Canada, Secretariat, *Managing for Results 1999*, volume I, p. 2.

The Presentation of Performance Information

The Committee notes that the Office of the Auditor General continues to make adjustments and refinements in the way that it presents information in its Performance Report. For each of its principal business lines, the Office is now including information on its commitments that is organized according to the services it provided, the indicators used to determine achievement, and what was actually achieved. These and other formatting changes represent welcome improvements. The Committee wishes to encourage the efforts of the Office in this regard and therefore recommends:

> **That the Office of the Auditor General continue, in consultation where appropriate with the Standing Committee on Public Accounts, to make refinements to the manner in which information is presented in its annual Performance Report, paying particular attention to the need for maintaining a high level of continuity with its Performance Reports of preceding years and to facilitating the use of Performance Reports in conjunction with the Office's Plans and Priorities documents; and**
>
> **That when it makes changes to its annual Performance Report regarding either formatting, objectives, or indicators, the Office of the Auditor General also include a brief explanation for the changes for the benefit of the readers.**

Furthermore, in the interests of facilitating ease of use of the Office's annual Performance Report, the Committee recommends:

> **That the Office of the Auditor General include an index of key issues and topics at the end of its annual Performance Report.**

Lastly, as noted above, the Office's Performance Reports now contain tables that provide information on results commitments that is organized according to services the Office provided, how it measured achievement and what it actually achieved. Although this represents a step forward, there is always room for improvement. The Committee accordingly recommends:

> **That the Office of the Auditor General improve the organization of its summary information on results commitments by adding a section describing its performance expectations prior to the section listing performance indicators and a section describing, when appropriate, where the Office fell short of anticipated performance and results.**

Conclusion

The Office of the Auditor General has for many years played a valuable and unique role in supporting the work of Parliament and fostering improvements to the management and delivery of government programs and services. Indeed, the work of the Office and the integrity with which it conducts its affairs should serve as a model for other public sector entities. The Committee is pleased to note that this tradition and example continue to be upheld by the current Auditor General, who has set an exemplary standard for leadership and probity, and by his staff.

The Committee's review of the *Performance Report for the Office of the Auditor General of Canada* for the period ending 31 March 1999 has convinced the Committee of several things. The Office is working well and achieving the demanding goals that it, as well as Parliament, has set. The activities of the Office are making an important difference in terms of a Parliament that is well informed and public management at the federal level that is improving. Satisfaction with the Office's achievements, however, has not blunted its determination to find ways of doing even better. It is in this spirit that the Committee has contributed its recommendations that have been made in recognition that service in the name of the public good in democratic societies requires constant scrutiny and evaluation.

In closing, the Committee notes that the Office of the Auditor General has been re-elected as the External Auditor of UNESCO after completion of an initial six-year mandate. This constitutes a significant vote of confidence in the abilities of the Office and is an achievement that ought to be source of pride for Parliament and indeed all Canadians.

The Committee requests that the Auditor General submit to the Committee a comprehensive response to this Report in the fall of 2000.

A copy of the relevant *Minutes of Proceedings* (*Meetings Nos. 5, 10, 15*) is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Wednesday, 22 March 2000

FINANCIAL INFORMATION STRATEGY: DEPARTMENTAL READINESS

In accordance with Standing Order 108(3)*(e)*, the Standing Committee on Public Accounts has the honour to present its

SEVENTH REPORT

After considering Chapter 21 of the November 1999 *Report of the Auditor General of Canada*, entitled "Financial Information Strategy: Departmental Readiness", the Committee has agreed to report as follows.

Introduction

For over 35 years, commissions, studies and reports have unanimously concluded that the federal government's accounting practices need to be modernised and improved since its financial systems have not linked between operational and financial data in a way that could establish program and other costs.

The purpose of the Financial Information Strategy (FIS) is to reform federal government accounting practices and financial systems by adopting full accrual accounting.

Approved in 1989, the FIS acquired momentum in 1995 when the Finance Minister announced the government's intention to adopt full accrual accounting. The government intends to implement the FIS by April 1, 2001.

In first examining the FIS in Chapter 18 of the September 1998 *Report*, the Auditor General noted broader related issues, including FIS project management by the Treasury Board Secretariat (TBS), the development of FIS central systems, and the need to move to full accrual accounting for parliamentary appropriations (accrual appropriations).

Chapter 21 of the November 1999 *Report* is the second in a series of chapters on the FIS, focusing on departmental preparedness for FIS implementation and FIS project management by the TBS.

Given the importance of accounting practices and financial systems in supporting decision-making and improving accountability to Parliament, the Committee decided to consider Chapter 21 of the November 1999 *Report*, and met on February 10, 2000 to do so. Denis Desautels, Auditor General of Canada; Ron Thompson, Assistant Auditor General; and Eric Anttila, Principal, Audit Operations, appeared as witnesses for the Office of the Auditor General (OAG). Richard Neville, Deputy Comptroller General; Jim Libbey, Senior Director, FIS Project; and John Morgan, Senior Director, Financial Management and Accounting Policy, appeared as witnesses for the TBS.

This report contains the Committee's observations and recommendations resulting from that meeting.

Observations and Recommendations

Given the rapid approach of the FIS target date, the Auditor General endeavoured to communicate to the Committee a sense of urgency about the FIS.

The Auditor General noted that the objectives of the FIS, which he fully supported, were to adopt full accrual accounting and new financial systems government-wide, and to integrate into day-to-day management the more businesslike financial information the FIS will provide.

Under the FIS, the Auditor General said, departments and agencies would be responsible for keeping their own accounts; the quality of the government's overall financial statements would greatly depend on the quality of the data produced by these entities; shortcomings in their systems affecting the accuracy of the *Public Accounts of Canada* would be embarrassing; and, in order to avoid this risk, the government must take appropriate steps, including proper contingency planning as new financial systems were brought on-line.

The FIS had been under way for some time, added the Auditor General, and all possible efforts must be exerted to implement it properly and on time. The Auditor General said he was worried about slow progress on the FIS; encouraged that during the previous year the government had set up the central systems to accept departmental FIS data; and pleased with the disciplined FIS project management by Public Works and Government Services Canada (PWGSC) and its main partners in implementing the central systems.

However, the Auditor General noted that some departments and agencies were just beginning FIS implementation.

Although most had set up new financial systems, much remained to be done to prepare these systems for the FIS and to adopt full accrual accounting.

The April 1, 2001 target date exerted considerable pressure on these departments and agencies and the central agencies; and that these entities must also ensure that they had the financial expertise required to carry out their increased FIS responsibilities properly.

The Auditor General noted that his observations on the FIS were based on audit work concluded in August 1999, adding that he believed that further positive action had been taken since.

The Auditor General pointed out that the move to accrual appropriations was still a major element of FIS implementation, adding that, under the FIS, using the same basis for accounting and for appropriations, including all major accountability documents and processes, would reduce or eliminate the need to reconcile two sets of records, one for day-to-day management and reporting and the other for accountability to Parliament. He stated that various accrual accounting methods could be used for appropriations, but stressed that these methods must be discussed as soon as possible.

According to the Auditor General, successful FIS implementation would go a long way toward providing managers with the financial data they need to provide public services to Canadians, and underpin the government's new management philosophy of disclosing all resources managed and consumed in achieving program objectives. He added that the FIS could be vital to related initiatives such as comptrollership, performance management, results management, and even managers' compensation.

The Auditor General said he believed that all was in readiness for successful FIS implementation, noting that the time was right for providing government Ministers, officials and managers the financial data they needed, and concluding that work must continue until FIS implementation was completed.

In his testimony before the Committee, Mr. Richard Neville provided an update on the FIS, noting, firstly, that major revised accounting policies had been issued some time ago; secondly, that departments and agencies were fully occupied in applying general policies to their specific entities and financial systems; thirdly, that the move to accrual appropriations was progressing more slowly than anticipated, and that the Treasury Board Secretariat was just about to send out a consultation paper to stakeholders; and, fourthly, that he was committed to providing members of the financial community with everything they needed to use the FIS by April 1, 2001. Mr. Neville added that managers would be familiar with the FIS and able to implement it by the target year of 2001-02.

Mr. Neville told the Committee that departments and agencies had thus far set up 17 FIS project teams, which considered subjects such as accounting policies, parliamentary appropriations, integration of financial and non-financial performance data, managers' commitment to the FIS, communication, and management of change.

The representatives met monthly in the FIS Forum to consider questions and options raised by member teams, share best practices and lessons learned, and make recommendations to Neville's central team.

Mr. Neville told the Committee that 14 entities were successfully connected to the central systems when the new PWGSC central systems were set up on April 1, 1999; that he planned to connect 23 more entities by April 1, 2000; and that some 60 entities would have to be connected by the April 1, 2001 deadline. He added that PWGSC was working hard to ensure that the project was well managed.

Mr. Neville admitted that much remained to be done by departments and agencies in ensuring that all their financial systems were FIS-compliant by April 1, 2001. He added that one important aspect of the FIS was these entities' obligation to adopt one of seven approved financial systems and to be part of a cluster with other entities sharing that system. Mr. Neville said that the clusters were largely completed and had reduced the number of financial systems used by the government from over 30 in 1996 to seven at present. Mr. Neville added that he thought the work done on departmental financial systems would be completed on time.

Mr. Neville listed three risks being managed government-wide:

- the fact that departmental preparedness was challenging;
- the significant workload involved in connecting some 60 entities to the central systems by April 1, 2001; and
- the fact that government employees had much to do if they were to be prepared for FIS implementation by April 1, 2001.

Mr. Neville told the Committee that, despite the challenges remaining, there were at present no risks that would jeopardize the FIS implementation target date.

Mr. Neville said that there had been much discussions about the cost of implementing the FIS and that he would provide further details on this point. He added that the TBS would explore FIS repercussions in order to assist managers and be able to monitor these repercussions.

Mr. Neville concluded by stating that, despite the risks, he believed the FIS would be implemented by April 1, 2001.

Moving to Accrual Appropriations

One objective of the FIS is to move to accrual appropriations. The Committee's previous report recommended that the government complete its consultations with departments and agencies as soon as possible and determine how best to move to accrual appropriations.

At its February 10, 2000 meeting, the Committee was very much concerned to learn that these consultations had not yet been completed.

Questioned on this point, Mr. Neville admitted that the consultation process was progressing much more slowly than anticipated. He told the Committee that he had only just signed the consultation paper to be sent out shortly to all stakeholders, and added that he had asked these entities to respond to by March 10, 2000 and would make his own recommendations to the government in two or three months. He pointed out that, ultimately, the federal government was responsible for deciding whether to move to accrual appropriations.

The Committee asked to be informed of the Treasury Board Secretariat final recommendation on moving to accrual appropriations. Mr. Neville said that he would share with the Committee the action plan developed in order to move the process along.

> **That, as soon as possible, the Treasury Board Secretariat complete its consultations with departments and agencies on moving to accrual appropriations; and**
>
> **Once the consultations are completed, that the Treasury Board Secretariat inform Parliament and the Public Accounts Committee in writing of its final decision and recommendations to the government on moving to accrual appropriations.**

Reporting Progress in FIS Implementation to Parliament

The Committee was very much concerned by the scarcity of public information on progress in FIS implementation, wondering how many departments and agencies were participating, what progress FIS implementation had made in each one, and what risks were associated with FIS implementation. The Committee asked the witnesses from the TBS whether they were considering taking action to offset this scarcity of public information.

Mr. Neville took this opportunity to present to the Committee a document entitled "FIS Plan and Status Report", which each department and agency was to complete before receiving additional financial assistance or support from the TBS.

The Committee asked to receive monthly information on progress in the government-wide FIS implementation.

In response, Mr. Neville promised to consider the possibility of producing a summary statistical indicator, something like a barometer, that would be adjusted monthly and would indicate progress in the government-wide implementation of the FIS.

The Committee also asked whether the TBS could publish this information on the FIS Internet site, which Mr. Neville committed to do.

> **That the Treasury Board Secretariat develop statistical indicators, to be updated monthly, measuring progress in Financial Information Strategy (FIS) implementation department by department.**
>
> **That the Treasury Board Secretariat begin publishing these indicators on the Financial Information Strategy (FIS) Internet site by May 1st, 2000.**

Departmental Commitment

The Committee expressed concern about what it saw as a lack of commitment to and participation in FIS by departmental senior executives and program managers.

The Auditor General said that he thought some departments attached little importance to the FIS, not out of lack of interest or bad faith, but because they had many priorities, among which administrative matters sometimes took second place. He added that, if the FIS was to be given high priority, Deputy Ministers would have to be convinced that it would improve overall departmental management, and that convincing Deputy Ministers and program managers of the benefits of the FIS would still require conviction and promotion.

The Auditor General emphasized that, with the year 2000 changeover now a thing of the past, Deputy Ministers could pay more attention to FIS implementation and take concrete action to give it high priority by making public commitments in their *Reports on Plans and Priorities*.

That the Treasury Board Secretariat encourage all departments and their Deputy Ministers to include in their *Reports on Plans and Priorities* a status report on the Financial Information Strategy implementation and a commitment to Canadians that they will give high priority to Financial Information Strategy.

Connecting Departments and Agencies to Central Systems

The Committee expressed some worry about the workload involved in connecting new departmental systems to the central systems. It was noted that 14 departments and agencies were connected on April 1, 1999; an anticipated 23 more entities would be connected on April 1, 2000; and nearly 60 entities would have to be connected by the target date of April 1, 2001. Apprehension was expressed that this significant workload might jeopardize timely FIS implementation as well as connection quality.

Mr. Neville admitted that the schedule for connecting departmental systems was very ambitious, but emphasized that to date no major problem had been identified that might jeopardize it.

Mr. Neville added that the 14 entities that had been connected on April 1, 1999 made up the two largest clusters among the seven shared financial systems; that the 23 entities to be connected by April 1, 2000 would make up two other clusters; and that these four groupings accounted for 60% of all shared financial systems.

Mr. Neville pointed out that the third wave of connections, to be completed by April 1, 2001, would be less work than the previous ones, since most entities in this third wave used shared financial systems that had already been converted. He added he was closely following departments' and agencies' progress, in co-operation with PWGSC, and anticipated no major problems with the third wave of connections.

That the Treasury Board Secretariat prepare a status report on connecting departmental systems to the central systems, identifying the number of successful connections, the number of connections to be completed, and risk factors that could jeopardize the Financial Information Strategy implementation.

That the Treasury Board Secretariat submit this connection status report to Parliament and the Committee by June 1st of each year until the Financial Information Strategy implementation is completed.

That the Treasury Board Secretariat immediately inform Parliament and the Public Accounts Committee of any risk that could jeopardize the timely connection of departments and agencies to the central systems.

The FIS and the Department of National Defence (DND)

Accounting for military assets can cause problems in government financial statements that use full accrual accounting. In wartime, acquisition or destruction of military assets such as equipment, buildings, ships and airplanes and other armour significantly affects the government's financial statements, especially the Statement of Assets and Liabilities not to mention long term costs of caring for and rehabilitation of the wounded. At the Committee's February 10, 2000 meeting, Department of National Defence participation in the FIS was discussed. Mr. Neville pointed out the Department of National Defence decision to adopt full accrual accounting and to capitalize its military assets. The Committee hailed this decision by Department of National Defence.

Conclusion

This report has considered departmental preparedness for FIS implementation. The Committee recognizes the vast effort and progress made to date by all stakeholders, but notes that much remains to be done, with little more than a year to go before the April 1, 2001 target date. The Committee's main concern is the slow pace of consultations on moving to accrual appropriations. The government must take a clear position on this issue and enforce its position promptly; otherwise vagueness may jeopardize FIS implementation overall. The Committee considers that moving to accrual appropriations is the best way to make the new accounting practices part of departmental management and decision-making processes.

The workload is daunting, and the deadline is tight. All stakeholders must recognize the urgency of the situation and maintain momentum, since there is still a high risk of incomplete FIS implementation. The Committee is convinced that FIS implementation is important in improving government decision-making, accountability, and organizational performance. The FIS opportunity must be taken; otherwise the repercussions will be far-reaching.

In accordance with Standing Order 109, the Committee requests a comprehensive government response to this report.

A copy of the relevant *Minutes of Proceedings* (*Meetings nos 11 and 17*) is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Wednesday, 17 May 2000

The Standing Committee on Public Accounts has the honour to present its

EIGHTH REPORT

In accordance with its Order of Reference of Tuesday, February 29, 2000 your Committee has considered Votes 20 and 25 under FINANCE of the Main Estimates for the fiscal year ending March 31, 2001 and reports the same.

A copy of the relevant *Minutes of Proceedings* (*Meeting No. 22*) is tabled.

Respectfully submitted,

John Williams

Chair

REPORT TO THE HOUSE

Wednesday, 17 May 2000

Pursuant to Standing order 108(3)(*e*), the Standing Committee on Public Accounts has the honour to present its

NINTH REPORT

The Standing Committee on Public Accounts has considered Chapters 14 and 15 of the September 1999 Report of the Auditor General of Canada (*National Health Surveillance: Diseases and Injuries, and Management of a Food-Borne Disease Outbreak)* and the Committee has agreed to report the following:

Introduction

The increasing mobility of persons and goods across national boundaries has greatly increased the danger of worldwide transmission of communicable diseases. In cases of contamination, the health and safety of all Canadians requires that the sources be quickly identified and isolated in order to implement effective corrective measures.

Over the years, Canada has developed a national health surveillance system that is designed to monitor the incidence of injuries and communicable diseases that can jeopardise the health and safety of Canadians.

The health of Canadians is of utmost importance. Accordingly the Committee decided to examine the results an audit of Canada's national health surveillance system and a second audit focused on the way in which the outbreak of a food-borne disease was handled.

On March 2, 2000, the Committee met to the Auditor General of Canada, Mr. L. Denis Desautels, FCA, Ms. Maria Barrados Assistant Auditor General and Mr. Ronnie Campbell, Principal, Audit Operations Branch of the Office of the Auditor General. Mr. Robert S. Lafleur, Senior Assistant Deputy Minister, Corporate Services Branch, Dr. Joe Losos, Assistant Deputy Minister, Health Protection Branch, and Mr. Michael Shannon, Executive Director, Animal Products Directorate, Health Canada. Mr. Ron Doering, President, Dr. Brian Evans, Executive Director, Animal Products Directorate and Mr. Robert Carberry, Director, Plant Health and Production Division, appeared on behalf of the Canadian Food Inspection Agency.

Observations And Recommendations

Canada's national health surveillance system must be as efficient and effective as possible. This is particularly so at a time when travel and globalization are exposing Canadians to new and sometimes quite virulent threats to their health. Anyone seeking assurance, however, that the system currently in place is up to this challenge would be dismayed by the audit results reviewed by the Committee.

The audit revealed a series of structural problems in the health surveillance system. The federal, provincial, and territorial governments are all involved to varying degrees in delivering health services to Canadians, yet there is, in the Auditor General's words:

> No specific legislation, policy, or agreement that links separate components of public health functions at the various levels of government.

As a consequence, the roles and responsibilities of those involved in national health surveillance and disease control were not clearly specified or understood.

Key surveillance systems used by Health Canada to monitor communicable diseases such as influenza, AIDS, tuberculosis, and food-borne disease were not working as intended. Data being collected was not always accurate, comparable, or timely. There were no formal arrangements with the provinces and territories covering common standards and procedures for collecting and exchanging data. These weaknesses in data collection resulted in delays in disseminating surveillance information. Based on his observations, the Auditor General reported to Parliament that:

> Taken together, the weaknesses [he] observed have clear national implications for public health. First, they compromise Health Canada's ability to detect, anticipate, prevent and control health risks associated with outbreaks of communicable diseases. Secondly, they compromise their ability to plan, carry out and evaluate public health programs and other programs that deal with the causes and treatment of diseases.

The Committee views these shortcomings very seriously and is relieved to learn that Health Canada already has several corrective initiatives in place. Many of these were noted by the Auditor General in his Report.

The Department's work with provincial governments in building an integrated national surveillance network for public health surveillance is of particular note. Extensive consultations with stakeholders have been completed, a conference on a proposed national framework was held, a proposal was released, and in June 1999 the Department issued a report with recommendations. Federal, provincial, and territorial ministers of health are considering this report.

The Auditor General commends these efforts and writes that the proposal "represents a significant step forward." He continues that an integrated network "would do much to address a number of weaknesses" identified by his audit. (14.95) He adds, however, "it is unclear when such an integrated national health surveillance network would be implemented, as there are no planned timeframes or action plans for implementation."

The Committee also commends this effort and is anxious to see its timely implementation. It therefore recommends:

> **That Health Canada report on the implementation of a national health surveillance network to Parliament on a regular basis. Such reporting should consist of references to the Department's plans including timetables and the financial, technological, and human resources it will devote to this effort, in its annual Report on Plans and Priorities. The Department's annual Performance Report should discuss the progress that has been made.**

Furthermore, in full anticipation that this network will be established, the Committee recommends:

> **That once the implementation of an integrated national health surveillance network has taken place, Health Canada continue to inform Parliament of the results and outcomes produced in its annual Performance Reports.**

The Committee also notes that Health Canada's Laboratory Centre for Disease Control (LCDC) had not used the tools available to it to better manage its surveillance activities. LCDC had no formal plans to evaluate its surveillance systems. It had not completed a framework for measuring its performance. Only limited use had been made of risk assessments to identify diseases as candidates for surveillance. The Committee believes that the application of these tools, which are all within LCDC's control, would greatly improve surveillance and recommends:

> **That Health Canada's Laboratory Centre for Disease Control begin to evaluate its surveillance systems at regular intervals, complete and implement a framework for measuring the performance of these systems, and use risk assessment in the identification of diseases for surveillance; and**

That Health Canada reports progress in the application of these tools in its annual Performance Report, beginning with the Report for the period ending 31 March 2001.

Health Canada displayed a clear willingness to act on all of the Auditor General's recommendations. In subsequent correspondence with the Committee, the Department has provided an outline of the actions it is taking to address those recommendations. The Committee appreciates this positive reaction and recommends:

That Health Canada include a reference to its progress in implementing the recommendations contained in Chapter 14 of the 1999 Report of the Auditor General of Canada in its annual Performance Report, beginning with the Report for the period ending 31 March 2000.

Chapter 15 of the Auditor General's 1999 Report – *Management of a Food-Borne Disease Outbreak* – clearly illustrates the problems that can result from gaps in the national health surveillance system. This chapter contained the results of an audit of the way the Canadian Food Inspection Agency, Health Canada and provincial agencies handled one of the largest food-borne disease outbreaks in Canada.

Some of the important aspects of the response worked well, but others did not. The audit found that there were delays in the exchange of information to identify the scope of the outbreak. There was a less than full co-operation among the agencies in responding to the outbreak and the agencies and departments involved did not maintain appropriate records on the outbreak.

In his opening statements, the President of the Canadian Food Inspection Agency (CFIA) informed the Committee that:

- Food safety is the primary concern of the CFIA;
- CFIA welcomes and supports the Auditor General's recommendations related to improving the overall food emergency response system; and
- CFIA is a continuous learning organisation. It agreed with the Auditor General's recommendations and is working towards their full implementation.

Mr. Doering then enumerated a series of initiatives, either completed or currently being implemented:

- In 1999, Health Canada completed a review of CFIA's Food Emergency Response System. In addition, CFIA's own Corporate Audit and Review Directorate developed an action plan to address some of the issues raised in the review. These reviews, together with ongoing efforts to clarify and update working relationships and the underlying agreements with Health Canada and the provinces/territories, have resulted in significant improvements to the management framework, operational processes, and the basis for co-ordination for food emergency management.
- CFIA is currently working with Health Canada and provincial and territorial counterparts to finalise a Food-Borne Illness Response Protocol, which is designed to improve the co-ordination efforts and response to food emergencies to the food safety needs of consumers.
- CFIA has made significant changes to its management of food safety emergencies, including, among others, the creation of the Office of Food Safety Recall (OFSR) in July 1999. The OFSR has responsibility for decision making for all emergency management.

As a final remark, Mr. Doering stated that CFIA is committed to continuous improvement of its food emergency response system and will continue to work in collaboration with all levels of governments. Although the

Committee welcomes the Agency's determination to put in place corrective measures, a number of concerns remain outstanding.

During the meeting, some concerns were raised about the nature of the Agency's responsibilities and its relationships with other entities. Some Members perceived a potential for confusion arising from the Agency's relationship with two departments, Health Canada and Agriculture and Agrifood Canada. Other concerns were expressed about the appropriate level of ministerial involvement in the day-to-day affairs of the Agency.

In Chapter 12 of his September 1998 Report (*The Creation of the Canadian Food Inspection Agency*) the Auditor General described the Agency's accountability regime. He observed that while the Agency's enabling legislation provides a check and balance for shared responsibilities between it, Health Canada and Agriculture and Agrifood Canada, it does not describe roles and responsibilities in much detail. Some additional detail was added in a memorandum of understanding signed between Health Canada and the Agency and the Auditor General noted that:

> It [was] understood that roles and responsibilities [would] be reviewed further as the accountability framework continues to be used.

At that time, the Auditor General indicated that the clarity and effectiveness of these arrangements in the accountability framework still needed to be tested as new events occur over time.

In some respects, the food-borne disease outbreak provided the test of the accountability relationships referred to by the Auditor General in his 1998 Report. The Committee believes that the results of this audit suggest that the Agency's accountability relationships could benefit from further clarification. The Agency has been in existence for three years now; this might be an appropriate opportunity to examine its enabling legislation in light of the experience that has been gained. The Committee therefore recommends:

> **That a Standing Committee of the House of Commons be given the task of reviewing the *Canadian Food Inspection Agency Act*, paying particular attention to the clarity and effectiveness of the Agency's accountability framework; and**
>
> **That the Canadian Food Inspection Agency establish specific policies and procedures to resolve disputes and disagreements that might arise among parties and report the progress of this initiative in its annual Performance Report for the period ending 31 March 2001.**

The Canadian Food Inspection Agency (CFIA) is responsible for the enforcement actions in food related emergencies and has a lead role in co-ordination of emergency response and investigation of food-borne illness outbreak. Given this, the Committee was interested in understanding the reasons behind the Agency's decision to drop the leadership role in the inspection of a food processing plant suspected of being a source of *Salmonella* contamination.

The audit noted that after a number of inspections of food processing plants, nothing could be found that would allow a conclusion to be drawn as to the cause of the contamination. Concerns remained about the water quality at one of the food processing plants.

In paragraph 15.57 of his Report, the Auditor General indicated that CFIA officials told his Office that:

> Senior management decided, upon reviewing the file, that based on their analysis of previous inspections there was no further need for the Agency to inspect the plant. The Agency decided that it would no longer lead the inspection of the plant. In effect, it changed its role to one of assisting Health Canada in determining the cause of contamination, rather than maintaining a lead role in the investigation.

However, Health Canada, provincial and local health officials felt that there were sufficient reasons to have the plant re-inspected and decided to carry it through. Jurisdictional considerations dictated that a local health officer take the lead in the inspection. The ensuing confusion over the leadership role delayed the inspection by one day.

Dr. Evans indicated that the Agency's decision not to lead the inspection was based on jurisdictional considerations. The Agency was leading an investigation into Salmonella contamination but what the inspection uncovered was a coliform bacteria contamination of well water that was not involved in the plant's food transformation processes. Given the public health implication to the staff working in the plant at the time, the Agency felt it was appropriate for the Ministry of Health of Ontario to take over the lead role in the investigation to identify the source of contamination. He told the Committee that:

> The issue was we (CFIA) felt that there was no need to do further inspection of processing controls, which is why we had the lead, because that is our inspection and technical competency mandate. So we felt the processing control piece did not need to be revisited, having being investigated at four different previous occasions.

The Agency was asked whether it felt the inspection was necessary. Dr. Evans replied that the inspection was required to deal with the coliform bacteria counts, not dealing with process controls, where we had the lead, and therefore the jurisdictional lead, we felt, should transfer to Ministry of Health in Ontario because, again, they were now starting to investigate a public health risk not related to cheeses, not related to food-borne illnesses.

He then testified that: "on the subsequent investigation, when the seventh team did go in, they were not able to duplicate. *The results were negative on the seventh investigation.*"(Emphasis added) When questioned about the use of contaminated well water in the food processing plant, Dr. Evans replied that: " the well water was used only in the plant in terms of washing of surfaces. *But it's an enclosed system and there's no opportunity for that water to engage or come into contact with the cheese process.*"(Emphasis added).

In his Report, however, the Auditor General wrote that:

> The inspection revealed contamination in the plant's water supply and identified several other opportunities for contamination of cheese. (Emphasis added) The team concluded that the water at the time of the inspection was not potable. Although the water was mainly used for cleaning, nevertheless the plant was ordered by local public health and CFIA officials to remain closed until a water disinfection system could be installed. However, the investigation could not determine the cause of the contamination of the cheese.

It is the Committee's belief that the CFIA's decision to yield the leadership role in the inspection resulted in undue confusion and delay in determining the origin of the food-borne contamination. The Committee welcomed the news that in 1999 CFIA updated the agreement with its partners on roles and responsibilities in addressing food emergency responses and that it has set up working procedures in the "Food Borne Illness Outbreak Response Protocol". Accordingly, the Committee recommends:

> **That the Canadian Food Inspection Agency provide Parliament and the House of Commons Standing Committee on Public Accounts with copies of the Food-Borne Illness Outbreak Response Protocol, and that the Agency inform Parliament of the progress of this initiative though its annual Performance Reports, beginning with the Report for the period ending 31 March 2001.**

Furthermore, the Committee recommends:

> **That in all future investigations, the Canadian Food Inspection Agency maintain a senior, if not a lead role, and that it consult with, and obtain agreement from, all concerned parties before changing its roles and responsibilities when carrying out an investigation; and**

That, in the event that a change in roles and responsibilities is warranted, the Canadian Food Inspection Agency submit to Parliament all relevant documents, records of decisions and key meetings between all concerned parties involved in the consultations and decision.

The Committee was concerned by CFIA's lack of participation and transparency in the post-outbreak review of the *Salmonella Entiriditis* outbreak. Post-outbreak reviews are necessary to ensure that lessons are learned and errors avoided.

Dr. Evan acknowledged that the Agency "did not have a formal post-mortem in the sense that was recommended by the Auditor General," but that a formal process has now been implemented and carried out in every subsequent investigation.

The Committee welcomes this development and urges the Agency to maintain its commitment to proper record keeping and reporting to Parliament. The Committee therefore recommends:

That Canadian Food Inspection Agency report on the implementation of the Auditor General's recommendations in its annual Report on Plans and Priorities. Such reporting should consist of references to the Agency's plans including timetables and resources devoted to this effort. The Agency should also discuss the progress that has been achieved by these initiatives in its annual Performance Report to Parliament beginning with the Report for the period ending 31 March 2001.

Conclusion

The Committee is quite concerned by the Auditor General's findings on the national health surveillance system and the management of food inspections. The shortcomings identified by the audits are very worrisome given the potentially serious consequences to Canadians.

A well functioning national health monitoring system requires the sharing of relevant and timely information and the efficient participation and co-operation of all orders of government and private organisations. It is therefore imperative that each participant has a clear idea of their respective roles and responsibilities in this system.

The Committee acknowledges both the Department's and the Agency's efforts to address the structural problems in the health monitoring system but much remains to be done. All outstanding issues must be addressed without further delay if the health and safety of all Canadians is to be adequately protected.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos. 16 and 23)* is tabled.

Respectfully submitted,

John Williams, M.P.

Chair

REPORT TO THE HOUSE

Wednesday, 17 May 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

TENTH REPORT

The Standing Committee on Public Accounts has considered Chapter 18 (*Public Works and Government Services Canada - Alternative Forms of Delivery - Contracting for property management services)* and Chapter 27 (*National Defence: Alternative Service Delivery*) of the September and November 1999 Reports of the Auditor General Of Canada And The Committee Has Agreed To Report The Following:

Introduction

Over the past decade, the federal government has had to reduce expenditures as a consequence of unsustainable annual deficits and a growing debt load. At the same time, the government has had to continue fulfilling its national and international obligations and responsibilities, some of which have intensified in the declining years of the twentieth century. These factors have prompted changes to the structure and operation of government that are unprecedented in their scope, intensity, diversity, and rapidity.

In his Reports to the House of Commons for 1999, the Auditor General of Canada has brought an important aspect of this change to Parliament's attention: the federal government's increasing use of non-traditional means of delivering – and sometimes designing – programs and services. Chapter 5 of his April Report – *Collaborative Arrangements: Issues for the Federal Government* – established fundamental concepts and principles that should be taken into account when approaching this change. Subsequent Reports in September and November moved from overall concepts to specific forms of non-traditional delivery and to examples that illustrate the strengths and weaknesses of the effort to date. Chapters 18 and 27 examine one such form of non-traditional delivery: Alternative Service Delivery (ASD) which is categorized under the broader heading of Alternative Forms of Delivery (AFD). These terms are used by government to describe ways of providing and obtaining services outside of government itself. Thus, what government once did by itself, it now does with others or lets others do entirely.

The Committee strongly believes new ways of delivering government services represent an important opportunity. It believes even more strongly that Parliament needs to be informed of these changes. While the approaches are new, two constants remain: the objectives and the source of the funding consumed in attaining them, both of which are public. These constants require Parliament to exercise its obligations to Canadians to scrutinize proposed spending before it grants approval and to hold Government to account. Furthermore, it is vital that as new mechanisms -- many of them experimental – are adopted by government, flawed elements be abandoned and replaced quickly. This necessitates constant departmental oversight and adjustment – and regular reporting to Parliament on the results.

With these factors in mind, the Committee decided to review the results of two audits whose subject was alternative forms of delivering services. The first examined Public Works and Government Services Canada's contracting activities for property management services (Chapter 18). The second focused on the Department of National Defence's use of Alternative Service Delivery (ASD) to obtain non-core services (Chapter 27).

Accordingly, the Committee met on 17 February 2000 with the Auditor General of Canada, Mr. L. Denis Desautels, FCA, Mr. Peter Kasurak, Principal, Audit Operations Branch, and Mr. Hugh McRoberts, Principal, Audit Operations Branch, of the Office of the Auditor General of Canada. Mr. Michael Nurse Assistant Deputy Minister, and Mr. Hank van der Linde, Director General, Property and Facilities Management, Real Property Services Branch, represented Public Works and Government Services Canada. The Department of National Defence was represented by its Deputy Minister, Mr. Jim Judd, and by Vice-Admiral Gary Garnett, Vice-Chief of Defence Staff, Mr. Alan Williams, Assistant Deputy Minister, Materiel, and Mr. James W. Richardson, Major Service Delivery Procurement.

Observations and Recommendations

Public Works and Government Services Canada: Alternative Forms of Delivery – Contracting for Property Management Services (Chapter 18)

The audit reported in Chapter 18 looked at the contracting process used by Public Works and Government Services Canada (PWGSC) to contract out the operations and maintenance of two thirds of its buildings. The Department's aim was to contract out non-core activities that could be carried out by the private sector thus allowing it to concentrate on its core roles.

The goal of the audit was to determine whether PWGSC maintained the integrity of the contracting process by preserving openness, fairness and value for money. A related goal was to ascertain whether PWGSC had saved money by contracting out non-core services and whether the department had used an appropriate management framework.

A primary impetus for using new ways to obtain non-core services is the desire to reduce costs. But the Auditor General reports that it will be "a challenge for managers to tell whether they actually save money." It is too early to determine if PWGSC will meet its savings target of 10 percent annually, or $20 million, on its property management costs. Yet it may be difficult to determine whether this goal has been met even when sufficient time has passed.

The audit could not reconcile the baseline costs that the Department used to calculate expected savings, nor could the audit ascertain whether the Department would receive the quantity and quality of services it is paying for. Thus it is possible that the Department could end up saving less than it anticipated while receiving services of a lesser quality.

The property management services contracts, however, did contain features that should promote innovative business processes and help produce savings. A good performance evaluation framework was designed for the initiative and the Department handled the human resources dimension well, aiding a smooth transition to the private sector.

The Committee was particularly interested to learn that PWGSC used a bidding process that was open, transparent and fair. Various measures were taken to promote competition and open access. The Department consulted the industry, sent early formal requests for expressions of interest and gave contractors the time to make alliances or other arrangements to better compete. The successful contractor was a joint venture that was created specifically to bid on the alternative forms of delivery (AFD) contracts. These efforts to create competition deserve to be emulated elsewhere in government when circumstances are similar.

The Department's use of fairness monitors contributed significantly to the success of the initiative. These monitors provided independent assurance to all parties that the process was fair and conducted according to the rules. Potential litigation and complaints were thus avoided. The Committee believes that the use of such monitors should be extended and therefore recommends:

> **That Public Works and Government Services Canada amend its Contracting Manual to include the use of independent fairness monitors for all large and complex procurements.**

Committee Members asked whether there was a mechanism in place that would allow the Department to share lessons learned and best practices with other departments. Mr. Nurse replied that PWGSC's service units work closely with client departments when providing real property management services. Personnel in these units communicate and consult directly with departmental staff and exchange information on that basis.

The Auditor General added that Treasury Board Secretariat's Alternative Service Delivery (ASD) Steering Committee advises on revisions to the Treasury Board's guidance on alternative service delivery. He also indicated that best practices and lessons learned could be shared through the use of departmental performance reports. The Committee believes that further steps should be taken to facilitate the exchange of information and therefore recommends:

That Treasury Board Secretariat establish a forum that facilitates interdepartmental exchange of lessons learned and best practice relating to Alternative Service Delivery; and

That Treasury Board Secretariat encourage Departments and Agencies to use their annual Performance Reports as a vehicle for presenting lessons learned with regard to their Alternative Service Delivery mechanisms.

The Committee raised many questions about the cost savings expected from the outsourcing of real property management services to the private sector. In particular, the Committee was interested in whether or not the data to be generated by the Financial Information Strategy (FIS) would help PWGSC estimate potential savings more accurately. The Department was further asked if its financial systems would be ready to move to full accrual accounting and if its ASD program would be affected by such a conversion.

The Department assured the Committee that it would meet its April 1st, 2001 deadline and that the information generated by the FIS would indeed be very helpful. The Committee wishes to encourage the Department in its efforts and therefore recommends:

That Public Works and Government Services Canada ensure that all its ministerial financial systems, and accounting policies are ready, and its personnel fully trained for the move towards full accrual accounting by April 1st 2001; and

That Public Works and Government Services Canada ensure that all its accounting and financial systems are updated to provide more precise and accurate baseline cost savings estimates for Alternative Service Delivery initiatives.

The Department of National Defence: Alternative Service Delivery (Chapter 27)

With other departments and agencies, the Department of National Defence (DND) has had to maintain its operations while its budget has been reduced. In order to adjust to this environment, DND developed a five-year renewal plan that included alternative service delivery (ASD) as one of its key elements.

The Department identified its non-core activities and internal services as the most appropriate areas for an ASD approach. Collectively, these activities and services cost DND approximately one-third of its annual $10.3 billion budget. Consequently, any savings in these areas are potentially quite significant and could in theory be usefully redirected to the Department's core activities. Indeed, Mr. Judd confirmed that it was the government's intent to focus the Department's reduced resources on combat capabilities and away from administration and support services.

DND shared PWGSC's objective of getting the best value from spending on non-core activities. Consequently, the audit that was done of DND's ASD program also concentrated on that Department's ability to maintain the integrity of the contracting process, to save money as a result, and to put in place an appropriate management framework to govern the process.

Observations and Recommendations

Public Works and Government Services Canada's alternative service delivery initiative features innovative processes that should result in savings. From this perspective, the Department's ASD program can be considered largely successful. The same cannot be fully said of similar efforts by DND. This is clearly shown by audit results reported by the Auditor General in chapter 27 of his November 1999 Audit.

While PWGSC's projected annual savings of 10% appear reasonable and feasible in most (if not all) respects, DND's estimates have proven to be unrealistic. In 1996, the Department forecast that annual savings would reach $200 million by 1999, increasing to $350 million in 2001. DND has since revised this projection and is now indicating that savings will instead be $175 million annually by the end of the planning period 1999 – 2004. When he reported the results of his audit, the Auditor General noted that the Department was claiming annual savings of about $68 million, or 30% of the target it set in 1995. At that time, he added that he "was unable to verify the actual savings in any of the ASD projects" he had audited. At the Committee hearing, Mr. Judd testified that savings are now actually closer to $62 million annually. This means that in 1999, the savings claimed by the Department were approximately $138 million short of its original forecast.

The Committee agrees with the deputy minister that the actual savings represent a large sum of money. As Mr. Judd later testified, DND keeps this money, which is particularly important for a Department with high capital costs and a budget that has been cut by approximately 30%. However, it is not the size of the savings (although important) that is at issue, but the planning assumptions that produced inaccurate estimates. These problems were evident from the beginning when the Department identified individual services as candidates for alternative delivery.

The first step in transferring a service to an alternate means of delivery is a business case analysis. This is a standard approach whose basic elements are well established. As the Auditor General commented in his Report, "the requirements for business case analysis are basic and represent due diligence in the expenditure of government funds." It is therefore appropriate that the Department's ASD policy calls for such analyses as an integral part of all ASD decisions. The audit revealed, however, that these analyses were not always done or done properly when they were.

In some cases, the existing levels of service in terms of quantities, qualities and costs, were not known before an ASD decision was taken. Baseline costs for several major projects were either inadequately defined (the Meaford Area Training Centre), incomplete (the National Defence Headquarters Facilities Management Project), or only established after the Department decided to move to an alternative form of delivery. (the Goose Bay project) These costs would have shown what it was costing the Department to deliver the services itself.

In some cases where baseline costs had been estimated, the Auditor General could not verify that they were either accurate or comprehensive. Unless these costs are firmly established, it is impossible to know the savings generated by other forms of delivery with any accuracy. As the Auditor General told the Committee, the Department "is likely saving money, but the amount is open to question."

The audit found other gaps that created significant shortcomings in the ASD process. The Department did not consistently assess whether or not the private sector was capable of, or interested in, delivering services it wished to out-source. Analyses of the various potential delivery options – including assessments of the risks associated with them – were often inadequate or incomplete. Not surprisingly, the best options for delivering some services were not necessarily always selected.

In light of these problems, it is difficult to judge the Department's ASD program a success at this stage. Departmental estimates of the savings generated by the program must be treated with extreme caution and there are questions regarding DND's ability to plan the allocation of its resources if these estimates are used. It is also entirely possible that poor business case analyses might result in the Department actually paying more for certain services, receiving services that are of lower quality, or both. These scenarios have important implications regarding DND's ability to deliver its core services.

The Auditor General noted that the Department has made improvements in its management of ASD projects. Two recent initiatives – the Supply Chain project and the Military Pay project – have shown that change for the better is possible. While the Committee welcomes these improvements and notes the Department's intention to make them part of all future ASD decisions, it seeks a strong commitment to rigorous business case analyses. The Committee therefore recommends:

> **That the Department of National Defence ensure that at the project level, management of all Alternative Service Delivery projects include the preparation, before any decision is made, of a full business case analysis. Such analyses must consist of a determination of current levels of service, baseline costs, and an options analysis.**

During his testimony, Mr. Judd told the Committee not to expect improved results from the changes in the near future. The Department's ASD program, he said,

> Has to be seen very much as a long-term program, and as such, it may not be realistic to expect dramatic and fundamental changes overnight, particularly since we're talking about changing business practices that have in some cases been around for decades.

This comment is similar to the one made by the Department in testimony before this Committee in December 1996. The Committee finds this to be unacceptable. As noted by the Auditor General in his Report, the Department testified that the cultural change needed to implant a more businesslike approach at DND would take a long time.

However, there are reasons to believe that changes should occur immediately. Of the Department's $10.3 billion annual budget, $3.5 billion are spent on support services, leaving, as the Auditor General points out, "considerable scope for savings" from a better managed ASD program. As noted earlier, the Department has already been able to make appreciable improvements in the management of two recent ASD projects. Also of note is the existence, since November 1996, of guidance in the Department for managing ASD projects. This guide (*Guide to ASD Methodology*) was considered sound enough by the Auditor General for use in his audit. He concludes that the problem was that this framework "had not yet been put into practice for many of the projects" he audited.

Collectively, the potential savings available to a Department that needs them for its core services, the existence of a valid management framework, and some recent successes all indicate that timely change is both urgent and feasible. With this in mind, the Committee recommends:

> **That the Department of National Defence, under the leadership of its Deputy Minister, apply all aspects of its management framework for its ASD program immediately.**

Furthermore, the Committee believes that cultural change is needed in the Department in order for it to achieve the full benefit of its ASD management framework. Accordingly, the Committee recommends:

> **That the Department of National Defence, under the leadership of its Deputy Minister, assign immediate priority to the development of a departmental culture that favours an awareness of costs and a more businesslike approach.**

Parliament needs to be informed, on a regular and consistent basis, of the progress the Department is making in achieving its ASD objectives. This will have the added benefit of encouraging the Department to establish realistic goals and then measuring its performance in achieving them. If executed properly, this should also enable the Department to make timely adjustments in response to what it is learning. The Committee thus recommends:

> **That the Department of National Defence include specific reference to its plans and savings targets for its ASD projects in its annual Report on Plans and Priorities beginning with fiscal year 2001-2002, and that it report progress in its annual Performance Report beginning with the report for the period ending 31 March 2002. Reference should be made in the latter document to lessons learned and applied.**

The Auditor General testified that problems with business case analysis "show that departmental staff lack the skills to assess complex projects." In his view, business case analyses were unlikely to improve unless DND staff acquired the necessary skills. For their part, departmental witnesses stressed that better training was already taking place. Vadm Garnett told the Committee that "a number of training modules and workshops in business case analysis" are now available at the CF Management Development School in Saint-Jean, Québec. These are positive developments and the Committee recommends:

> **That the Department of National Defence assign priority to ensuring that its departmental staff have the necessary skills and training to manage its ASD program; and**

> **That the Department of National Defence make specific reference to the human, financial, and technological resources it will devote to implementing its ASD program in its annual Report on Plans and Priorities beginning with fiscal year 2001 – 2002.**

The Committee takes a close interest in the government's Financial Information Strategy (FIS) and has become a strong advocate of its timely and complete implementation. In response to questioning, Mr. Judd agreed that the use of FIS would assist the Department in making its ASD program a success. The support of senior departmental management is crucial if FIS is fulfil its potential; the Committee therefore welcomes Mr. Judd's commitment and recommends:

> **That the Department of National Defence resolve any remaining substantive issues with Treasury Board Secretariat related to the implementation of the Financial Information Strategy and meet all of its target implementation dates; and**

> **That the Department of National Defence use data and information generated by the Financial Information Strategy to guide its Alternative Service Delivery program, as well as all other aspects of its operations in which financial information is needed for planning purposes.**

Conclusion:

The number and variety of non-traditional means of delivery of government services is expanding. This creates several important challenges. Government and its departments are faced with the task of monitoring the design and implementation of new mechanisms. Innovation must be allowed to take place, but only within a framework that clearly specifies roles, expectations, and obligations. Risks associated with innovation can and must be minimized by knowing and using proven management techniques. What does not work must be swiftly abandoned in favour of what does. The costs involved must be accurately established and used as the basis for all decisions.

As departments and agencies cope with these challenges, an obligation that is paramount in Canada's system of government is all too often neglected: the obligation to account for the expenditure of public funds and for the outcomes that are achieved as a result. It is for that reason that the Committee has emphasized the need to keep Parliament regularly informed of changes in the way government services are delivered. Accountability is far too important to be neglected in favour of administrative convenience, no matter how pressing the need may appear.

During its hearing, the Committee heard encouraging testimony on the progress being made in alternative service delivery. It also learned of many shortcomings. The Committee thoroughly expects that these shortcomings can and will be resolved. It also expects that methods for resolving problems along with other best practices will be shared. Its recommendations, with those made by the Auditor General of Canada, are intended to contribute to these ends.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos. 12, 19 and 23)* is tabled.

Respectfully submitted,

John Williams, M.P.

Chair

REPORT TO THE HOUSE

Thursday, 8 June 2000

Pursuant to Standing order 108(3)(*e*), the Standing Committee on Public Accounts has the honour to present its

ELEVENTH REPORT

The Standing Committee on Public Accounts has considered Chapter 17 of the September 1999 Report of the Auditor General of Canada (*Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit*) and the Committee has agreed to report the following:

Introduction

"Collaborative arrangements" is a recent term used to describe collective efforts by Canadian governments to provide services to Canadians. These efforts involve agreements between levels of government and, on occasion, the voluntary and private sectors, to share power, responsibilities, and costs in designing and providing services. While Canadian governments have worked together in this manner in the past, collaborative arrangements have become more frequent and wider in scope.

The Canada Infrastructure Works Program (the Program) is a major example of a collaborative arrangement. Initiated in 1994, the Program involved the participation of three levels of government – federal, provincial, and municipal – in an effort intended to boost employment and maintain and develop local infrastructure. The federal government was responsible for approving joint funding for projects proposed by the provinces. Provincial governments assumed responsibility for day-to-day operations and program delivery.

The Program was temporary in nature, and was originally slated to end after two years, but with disbursements to be allowed over three years. In its 1995 Budget, the federal government extended the Program until 1998 – 99, but did not provide for additional funding.

By the time the Program ended, in March 1999, the three levels of government had spent in excess of $8.3 billion. The federal government's contribution amounted to $2.4 billion.

The Auditor General included the results of an audit of the Program in his Report of November 1996. These results were reviewed by the House of Commons Standing Committee on Public Accounts, which subsequently issued a report (Sixth Report) with recommendations on 17 November 1997.

In January 1997, the Government announced that the Program would be extended (referred to as Phase II) and that it would provide an additional $425 million to support new projects. The provinces and other partners were to contribute a further $850 million. Thus, in 1999, when the Auditor General conducted a follow-up of his 1996 audit, the Auditor General combined it with an audit of Phase II.

These factors explain the Committee's interest in reviewing the audits' findings. The Program was innovative, involved substantial expenditures, and had been the subject of a previous report by the Auditor General and by the Committee. An announcement by the Government that it will extend the Program for a third phase makes it even more imperative to learn the lessons the earlier phases have to teach – and to apply them now. Accordingly, the Committee met twice with witnesses to examine Chapter 17 of the September 1999 Report of the Auditor General of Canada.

The first meeting took place on 24 February 2000. Mr. L. Denis Desautels, FCA, Auditor General of Canada, and Ms Maria Barrados, Assistant Auditor General, represented the Office of the Auditor General of Canada. Mr. Richard B. Fadden, Assistant Secretary, Government Operations Sector, and Mr. Ralph Heintzman, Assistant Secretary, Service and Innovation represented the Treasury Board Secretariat of Canada.

A second meeting was held on 21 March 2000, at which time Ms. Barrados represented the Office of the Auditor General. Mr.Henno Moenting, and Mr. John Mayne, both Principals with the Audit Operations Branch accompanied her. Dr. Eric L. Shipley, Director General, Information Management and Program Operations, Infrastructure, Mr. Toby Fyfe, Director, Alternative Service Delivery, Service and Innovation and Mr. Tom Fitzpatrick, Senior Policy Officer, Service and Innovation appeared on behalf of Treasury Board Secretariat.

Observations and Recommendations

The Canada Infrastructure Works Program (CIWP, the Program) was remarkably successful from several perspectives. As a collaborative arrangement, the Program involved the mobilization, co-ordination, and co-operation of three levels of government. This level of co-operation between Canadian governments is not often achieved; that it was in this instance is a credit to all participants. It is thus hoped that from this perspective the Program will serve as a model for future efforts.

The Program, as noted by the Auditor General, was hailed by participating officials for creating positive federal-provincial relations. In both of his Reports the Auditor General informed Parliament that responsibilities under the Program were allocated properly on the basis of each partner's expertise. This was appropriate from both constitutional and practical perspectives.

The funding formula (roughly one-third of the costs contributed by each partner) allowed the Program's partners to support projects collectively that they could not afford individually. Projects funded by the Program were clearly identified as collective efforts between three levels of government. This would have given Canadians tangible evidence that their governments are capable of working together to stimulate the economy and provide needed infrastructure.

The Program resulted in the implementation of more than 17,000 engineering and construction projects nation-wide. Many of these projects, as Mr. Fadden was careful to point out, involved the construction or repair of vital infrastructure and provided lasting benefits for numerous communities. Lastly both phases of the Program were implemented quickly, a key factor for success because, as the Auditor General observed in his 1996 audit, "[t]iming is an important consideration for the cost effectiveness of the program, as it was intended to stimulate economic activity when it was most needed."

The Committee acknowledges the efforts of all three levels of government and believes that the Program represents a sound model for future collaborative arrangements. Nevertheless, the audits revealed a number of shortcomings – some of which continued from one phase to the next in spite of corrective actions recommended by the Auditor General in 1996. These shortcomings involved financial management and control, audit, and information for Parliament.

The Canada Infrastructure Works Program is a contributions program. This means that federal funding is contingent upon fulfilment of certain performance conditions and compliance with program requirements that include appropriate control of public funds. As the Auditor General points out,

> These requirements have important implications for the Program's accountability regime – in terms of accountability among the partners to the [separate federal-provincial infrastructure works] agreements and also accountability to Parliament for expenditures undertaken and results achieved.

The audit found, however, that insufficient assurance was obtained that the Program's performance conditions and requirements were met. In some provinces, funding was given to municipalities for work done even though provincial officials had not demanded invoices or proof of payment. In every province examined, federal officials relied on provincial and municipal certifications that projects were implemented and that costs were claimed in accordance with the federal-provincial agreements and guidelines.

Compliance audits are one means of ensuring that appropriate financial and management controls are in place. Such audits can also provide some level of assurance when receipts and detailed statements of expenditures are not available and certifications used instead. The Committee recognized the utility of compliance audits and endorsed their use with respect to the Canada Infrastructure Works Program in its Sixth Report of the 35th Parliament.

Treasury Board Secretariat indicated that compliance audits were a requirement in Phase II, a step taken in response to one of the Auditor General's 1996 recommendations. The Auditor General discovered, however, that the implementation of compliance audits was slow. Apart from Québec and to some extent British Columbia, such audits were scheduled for completion only after "considerable" amount of time had elapsed since the start of the Program. In many cases, compliance audits only took place after projects were completed and the funding paid out. Completion averages for compliance audits were approximately two and one-half years into the Program.

In those instances in which timely compliance audits did take place, some payments were held back until supporting documents were provided. Québec provides a particularly useful illustration of how compliance audits can work. In that province, a sample of projects is selected based on risk and materiality, and is audited before final payment is made. If an adjustment is needed, the amount is deducted from the final payment. The Committee acknowledged the merit of Québec's approach in its Report of 17 November 1997 and recommended that its example be followed.

Timely compliance audits provide the assurance needed by officials at all levels of government, by parliamentarians, and by Canadians that public moneys have been spent only for the purposes intended. The Committee therefore recommends:

> **That provisions for the completion of compliance audits prior to the release of final payments be incorporated into all federal-provincial agreements for Phase III of the Canada Infrastructure Works Program. Such audits should focus on samples of projects selected on the basis of materiality and risk.**

An additional advantage of timely compliance audits is that they can point to the need make changes in program approach. Another means of identifying needed changes is through a process of rigorous program evaluation.

Dr. Shipley noted that an evaluation was done of Phase I of the Program. He commented that it was "very helpful to all concerned," and that lessons learned from the evaluation "can very easily be carried over" to Phase III. He also said "it would certainly be a wise idea to build in the requirements for evaluations along the way of what will be a five-year program." The Committee agrees and recommends:

> **That the lessons learned as a consequence of the evaluation of Phase I of the Canada Infrastructure Works Program be fully incorporated into the design of the Program's third phase.**

Furthermore, the Committee recommends:

> **That an evaluation framework for interim evaluations and a final program evaluation for Phase III of the Canada Infrastructure Works Program be developed during the design phase of the Program.**

> **This framework must clearly specify evaluation roles and responsibilities, and be in place prior to the Program's implementation;**
>
> **That an evaluation framework for Phase III of the Canada Infrastructure Works Program focus on the achievement of all of the Program's objectives;**
>
> **That sufficient resources for the conduct of interim and final evaluations be set aside prior to the implementation of Phase III of the Canada Infrastructure Works Program;**
>
> **That the evaluation framework for Phase III of the Canada Infrastructure Works Program be tabled in the House of Commons prior to the initiation of the Program;**
>
> **That the report and all related documents containing the results of the final program evaluation of Phase III of the Canada Infrastructure Works Program be tabled in the House of Commons within one month of their completion; and**
>
> **That there be a formal commitment made to follow up on all findings and recommendations contained in the interim and final evaluations of Phase III of the Canada Infrastructure Works Program, especially as they relate to subsequent programs of a similar nature.**

One of the Program's principal goals was to provide funding for infrastructure projects in addition to projects already planned or underway and funded under other arrangements. In other words, the focus was to be on new projects that would create new jobs and infrastructure and that would not have proceeded without CIWP funding. However, the Program's funding formula (roughly one third to be paid by each level of government) was in marked contrast to the formulae used by provincial governments and their municipalities, which saw provinces assuming between 50 and 100% of the costs. This created an incentive to transfer provincial-municipal projects to the more attractive funding formula offered under the CIWP – a phenomenon known as program substitution.

While it is never possible to eliminate program substitution entirely, planners can and should take steps to reduce its occurrence. Yet despite concerns raised by the government's 1996 evaluation and the Auditor General's examples of effective safeguards, provisions to limit substitutions between federal and provincial programs were "the exception rather than the rule" in Phase II.

Program substitution is a major potential obstacle to the creation of new jobs and new projects. The provision, therefore, of safeguards to limit its extent must be the rule in all future agreements. The Committee recommends accordingly:

> **That safeguards against program substitution be built in to the design of Phase III of the Canada Infrastructure Works Program, with specific reference to effective measures already in use in the Provinces of Québec and Saskatchewan.**

Job creation was one of the Program's central objectives and the number and type of jobs it generated have thus become a principal measure of its success. It therefore comes as no surprise that the Program's job creation statistics have become the subject of some controversy. While the Committee has no desire to take sides in this dispute, it does see considerable merit in making explicit the type of jobs created and the methodology used to calculate the numbers. The Committee therefore recommends:

> **That when Treasury Board Secretariat reports to Parliament on the estimated number of jobs created as a result of Phase III of the Canada Infrastructure Works Program, it specify the types of employment involved (full time, part time, temporary, permanent, indirect, direct), the method(s) used to calculate the numbers, and any limitations associated with the estimates that are presented.**

In reviewing the results of this audit, the Committee was particularly disappointed in both the content and tone of Treasury Board Secretariat's response to the Auditor General's recommendations. In some instances, the Secretariat agreed, but provided minimal detail regarding the actions it would take. In other instances, recommendations were flatly rejected. The Secretariat stated that in its opinion, the chapter containing the audit results presented "an inappropriately negative view" of a highly successful program.

The Committee believes that the Secretariat is missing the point and is overlooking opportunities to make useful improvements to Phase III of the Program. Given that a more thoughtful consideration of, and response to the recommendations is warranted, the Committee recommends:

> **That Treasury Board Secretariat carefully review the observations and recommendations contained in Chapter 17 of the September 1999 Report of the Auditor General of Canada and submit a detailed action plan setting forth the measures it will take in response to the House of Commons Standing Committee on Public Accounts no later than 30 September 2000.**

Conclusion

In less than one year, the federal government and Canada's provinces and territories will embark on a third phase of the Infrastructure Works Program. As noted by the Auditor General of Canada and other witnesses who appeared before the Committee, earlier phases of the Program exhibited certain strengths and produced various benefits. But there were also a number of shortcomings brought to light by two audits.

The existence of these shortcomings does not make this program a failure. But the failure, by the designers of the next phase, to learn the lessons the identification of these problems has provided would, in this Committee's view, significantly hinder the Program's future success. The time remaining before implementation should allow the designers ample opportunity to make the changes called for by this Committee and the Auditor General of Canada.

In closing, the Committee has taken note of the work done by the Auditor General of Canada in conjunction with a number of his provincial counterparts in the conduct of this audit. The Committee has previously recommended the use of this form of collaborative arrangement and is pleased to see that its suggestions have been followed.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos. 14, 18 and 28)* is tabled.

Respectfully submitted,

John Williams, M.P.

Chair

REPORT TO THE HOUSE

Thursday, 8 June 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

TWELFTH REPORT

The Standing Committee on Public Accounts has considered Chapter 30 of the November 1999 Report of the Auditor General of Canada (*Sole-Source Contracting for Professional Services: Using Advance Contract Award Notices*) and the Committee has agreed to report the following:

Introduction

Over the past several years, the Auditor General of Canada and this Committee have been scrutinizing the contracting activities of the federal government. The Auditor General examined the government's contracting performance in 1997 and reported his findings to the House of Commons that same year. This report set out the general roles, responsibilities and expectations in the government's use of contracting for goods and services. It also contained suggested performance criteria and indicators for contracting as well a framework for conducting future audits of contracting.

In chapter 26 of his December 1998 Report to the House of Commons (*Contracting for Professional Services: Selected Sole-Source Contracts*), the Auditor General presented the results of an audit that was conducted on a sample of 26 directed (or sole-source) contracts valued over $25,000 each issued by five departments for professional services. One important feature of the contracts was that they were let without an open and competitive tendering process. This audit's principal conclusion was that the government's rules for awarding non-competitive contracts were not being followed. The Auditor General also drew attention to the inappropriate use, by departments, of Advance Contract Award Notices (ACANs) to in effect deem sole-source contracts as competitive.

This Committee subsequently held a hearing on these audit results. At that meeting, officials from Treasury Board Secretariat maintained that because the sample of audited contracts was not selected at random and was small, the results could not be generalized to government as a whole. Although all witnesses agreed that ACANs provided transparency with regard to sole-source contracts, they were divided as to whether or not ACANs made the contracting process competitive. Mr. Alan Winberg (then Assistant Secretary, Risk, Procurement and Asset Management Sector at Treasury Board Secretariat) asserted that "If the procurement is transparent, if industry is aware of the opportunity and if they have the opportunity to participate, we [Treasury Board Secretariat] believe that the contract should be deemed to be competitive." (1640) He thus reasoned that because ACANs created transparency they rendered the process competitive. The Auditor General did not agree. In its Twenty-Eighth Report, tabled 5 May 1999, this Committee expressed its own concerns about elements of ACANs that disqualified them as a surrogate for competitive tendering.

As a consequence of the Committee's ongoing interest in the government's contracting activities in general and sole-sourcing and the use of ACANs in particular, the Committee decided to review chapter 30 of the Auditor General's November 1999 Report (Sole-Source Contracting for Professional Services). It also decided to concurrently examine the results of an audit of a sole-source contract issued by the Department of National Defence for support services for the NATO Flying Training in Canada program as reported in chapter 27 of the November Report (*National Defence: Alternative Service Delivery*).

Accordingly, the Committee met on 4 April 2000 with Auditor General of Canada, Mr. Denis Desautels, FCA, and Mr. Peter Kasurak and Mr. Hugh McRoberts, Principals of the Audit Operations Branch of the Office of the Auditor General of Canada. Deputy Comptroller General Richard Neville, Roberta Santi, Assistant Secretary, Risk, Procurement, and Asset Management, and Jane Cochrane, Senior Director Procurement Management appeared from Treasury Board Secretariat. Mr. Rick Burton, Director General, Materiel, appeared on behalf of the Department of National Defence.

Observations and Recommendations

Contracting is an indispensable means for government departments to acquire goods and services they need to carry out their mandates. For the suppliers of these goods and services, government contracts are not only a source of income, but also an opportunity (especially for newer or smaller entities) to demonstrate and enhance their capacities. Government contracting activity is also of significance to communities across Canada in which suppliers are located. When it is conducted properly, contracting thus provides benefits to all concerned – government, suppliers, and Canadian citizens alike.

In Canada, the principles underlying the contracting process and the framework of rules governing its conduct, are sound. The principles are simple: the contractor (the federal government) is to obtain best value (the best combination of value and price) and provide open access (fair opportunity for all qualified vendors to do business with the Crown) to the contracting process. These principles are realized through a set of equally straightforward rules, as expressed in Government Contracts Regulations, and Treasury Board Secretariat's Contracting Policy: all contracts must be let through open, competitive biding except – and only except – when one of the following conditions are present:

- The contract is valued at less than $25,000;
- There is a pressing emergency;
- It is not in the public interest to solicit bids; or
- Only one firm or person is capable of doing the work.

This Committee, the former House of Commons Committee on Government Operations, the Auditor General of Canada, and the Treasury Board Secretariat have all endorsed these rules. Given this wide support for rules that are exceptionally clear, it is extremely disappointing for this Committee to learn that they are still not being followed.

In chapter 30 of his November 1999 Report, the Auditor General has presented Parliament with indisputable evidence that departments are either ignoring the rules for sole-source contracts, or do not understand them. In either instance, the situation is completely unacceptable. Close to 90 percent of the 50 directed contracts examined for this audit "did not fall under any of the exceptions [which allow departments to bypass competitive bidding] or did not have adequate evidence of doing so and hence ought to have been competitively tendered." The Auditor General concluded, as he had at the end of his previous audit, that "the process of awarding most of the contracts audited in this sample would not pass the test of public scrutiny."

The audit findings thoroughly support this assessment. Problems were found in each phase of the contracting process. The need to contract a service rather than obtaining it in some other, perhaps less costly, manner had not been established in 95 percent of the audited contracts. Forty-six percent had statements of work and statements of requirements that were not clear about the levels of effort and performance expected, the services to be delivered and the costs involved. In some cases, the contractors themselves drew up the statements of work and requirements. Only one of the four departments involved had a means established for the formal review of all proposed contracts – and it was relatively limited in its mandate and did not address sole-source contracts. Only 11 percent of the 50 sole-source contracts that were audited had a justification on file that complied with the conditions stipulated in the Government Contract Regulations. Most of the decisions made to sole source were made on the basis that the supplier was the only one capable of providing the service required – but in 89 percent of the 50 cases, the uniqueness of the contractor had either not been established or was not supported in fact.

In drawing up contracts, departments had generally failed to ensure that those who had been awarded sole-source contracts would provide the Crown with their best rates. Apart from the 39 percent of the audited cases in which this was done, the departments were not able to provide any other evidence that the government was receiving good value from the contracts in question. In almost 50 percent of the cases, departments were unable to provide copies of suppliers' invoices and sign-offs certifying that the services delivered in accordance with contract requirements and in accordance with section 34 of the *Financial Administration Act*. In 56 percent of the cases, departments could not provide evidence that the deliverables specified in contracts had been provided in full, on time and at the agreed cost.

Treasury Board Secretariat's solution to these problems is more training. (1605) Since the rules governing contracting are straightforward and have been in place for some time, the Committee has difficulty comprehending how more training – although not a bad thing in itself – will solve problems that are widespread and persistent. Instead the key lies in creating a system of incentives that will encourage adherence to the rules. Accordingly, the Committee recommends:

> **That scrupulous adherence to the Government Contracting Regulations and Treasury Board Secretariat's Contracting Policy be taken into account as one of the factors used in decisions to promote public servants engaged as contracting authorities and technical authorities in departments and agencies.**

Advance Contract Award Notices (ACANs) have been used since 1992 to publicly advertise the government's intent to award a sole-source contract. It is generally agreed that if used properly, ACANs provide transparency surrounding the process and offer other potential suppliers an opportunity to challenge a directed contract before it is issued. The audit, however, revealed that ACANs have not fulfilled these expectations.

ACANs should provide enough information to allow potential suppliers to challenge the award of a sole-source contract. In 58 percent of the audited contracts, this was not the case. ACANs should indicate which of the four exceptions are being used to justify sole sourcing: only 54 percent of the cases did so. ACANs should provide potential suppliers enough time to submit a challenge; over 90 percent of the audited cases were posted for less than 15 days. All of these factors put potential suppliers at a disadvantage, reduce the likelihood of challenge, and make for a non-competitive environment.

The odds are still stacked against potential suppliers should they manage to submit a challenge. Procedures and practices are inconsistent, especially regarding the amount of proof that is required from challengers. Indeed, the audit found that:

> The level of effort required of a challenger to demonstrate proof of his or her capacity to meet the contract's requirements is much higher than is required of the supplier named in the ACAN.

To make matters worse for challengers, the same managers who awarded the sole-source contracts in the first place review their challenges. If they reject the challenge, the challenger has no recourse to an independent third party to appeal the decision. It is therefore not surprising that the Deputy Comptroller General was able to tell the Committee that he had been told that:

> There are very few [challengers] who actually meet the requirements and therefore can proceeded to the point where the procurement officer … will decide to open the competition.

In paragraph 30.71, the Auditor General sums up the obstacles confronting potential suppliers who might wish to challenge a sole-source contract:

> Very short time frames to formulate a challenge (15 days at most and typically less); an already chosen supplier who may have had months and the assistance of departmental officials to develop its proposal; a statement of requirements that may be vague and incomplete; a decision on the challenge's validity made by the very people who originally elected to sole-source, judged against unknown criteria to meet an unspecified standard of proof…

It is no wonder, even if the Auditor General estimated that about 90 percent of the ACANs posted are potentially open to challenge, only 35 of the 522 ACANs issued by four departments in 1998 were formally challenged and only 4 were accepted. Mr. Neville responded that this "doesn't leave us [Treasury Board Secretariat] with the impression that there are serious problems out there in terms of the challenge process." The Committee has quite the opposite impression and recommends:

> **That Treasury Board Secretariat immediately amend its Contracting Policy in order to specify that ACANs be posted for a minimum period of 30 days;**
>
> **That Treasury Board Secretariat amend its Contracting Policy to require departments and agencies to implement, by 31 July 2000, an independent mechanism for the review of all challenges that are received following the posting of Advance Contract Award Notices; and**
>
> **That Treasury Board Secretariat monitor departmental review of challenges to Advance Contract Award Notices and begin reporting the results accompanied by detailed explanations showing why challenges were either excepted or denied in its Annual Contracting Activity Reports beginning with the report for 2001.**

As noted above, Treasury Board Secretariat deems sole-source contracts that are made public through ACANs to be competitive and treats them as such when it compiles statistics for its Annual Contracting Activity Reports. However, the Committee believes that the weight of evidence produced by the Auditor General demonstrates that posting an ACAN does not automatically render the process competitive. The Committee therefore recommends:

> **That Treasury Board Secretariat cease its practice of deeming sole-source contracts posted in Advance Contract Award Notices as competitive until the recommendations made by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts with regard to sole-source contracts have been fully implemented and it can provide reasonable assurance that all existing requirements related to the circumstances under which sole source contracts may be awarded have been satisfied.**

As part of its review, the Committee examined the $2.8 billion, twenty-year, NATO Flying Training in Canada sole-source contract awarded by the Department of National Defence. The Committee's concerns relate principally to the manner in which the contract was awarded rather than to the success of the project itself. Chapter 27 of the Auditor General's November 1999 Report informed the House of Commons that in awarding this contract, DND did not establish that the supplier was unique and that the department's decision not to follow the normal bid solicitation process "was not adequately justified."

For example, departmental officials claimed that the benefits from the deal meant that competitive tendering was not in the public interest, rationale that does not conform to the Government Contracts Regulations' definition of public interest. In addition, the Auditor General expressed concerns about the level of profit that was awarded to the contractor – about $200 million over 20 years – which he argues was not consistent with Public Works and Government Services Canada's guidelines.

This contract not only demonstrated compliance problems found elsewhere but according to the Auditor General, shows that the government's existing framework for outsourcing major services is inadequate. The framework does not provide enough guidance on competition issues in a limited market, nor does it offer sufficient guidance to officials on how to evaluate risk and how to analyze and document the transfer of risk to the private sector.

While the Committee acknowledges that DND has already taken concrete measures to improve its contracting practices (for example, Mr. Burton told the Committee that DND is submitting challenges to ACANs to an adjudication process independent of the manager that issued the initial contract.), it remains concerned about the inadequacies identified by the Auditor General in the existing contracting framework. The Committee therefore recommends:

> **That, as part of its interdepartmental initiative to reform procurement, Treasury Board Secretariat address questions regarding large service contracts raised by the Auditor General of Canada in testimony before the House of Commons Standing Committee on Public Accounts on 4 April 2000.**

The Committee is deeply concerned about the response given this audit by Treasury Board Secretariat. In his opening remarks before this Committee in March 1999, the (then) Deputy Comptroller General Colin Potts affirmed that with regard to contracting, Treasury Board Secretariat was "open to ideas to improve our policies." However, the Secretariat's reaction to the Auditor General's recommendations -- in effect his "ideas to improve" contracting – could only be generously described as non-committal. Indeed, the Auditor General, having found ample evidence of exactly the same problems in this recent audit, felt compelled to repeat the essence of two of his recommendations, an extremely rare event. Furthermore, this Committee made a series of well-intentioned recommendations designed to ameliorate a badly flawed contracting process. Once again, it would require considerable effort to describe the Secretariat's response as enthusiastic.

The persistence and scale of the shortcomings identified by successive audits should provide more than enough evidence to cause alarm at Treasury Board Secretariat. It is astonishing that this is not so. If change is to occur, Treasury Board Secretariat must move beyond denial, admit that there is a serious problem, and then take serious corrective action. In expending its resources in a rearguard defensive effort, it is wasting valuable time and – while a flawed contracting process continues unchecked – considerable sums of taxpayers' money. Accordingly, the Committee urgently recommends:

> **That by no later than 31 August 2000, Treasury Board Secretariat develop an action plan to implement all recommendations contained in chapter 26 of the December 1998 Report of the Auditor General of Canada and chapter 30 of the November 1999 Report of the Auditor General of Canada. This action plan is to contain a specific timetable listing when its various components are to be implemented, and must be submitted to the House of Commons Standing Committee on Public Accounts no later than 15 September 2000; and**
>
> **That in developing its action plan, Treasury Board Secretariat devote particular attention to recommendations found at paragraphs 30.85, 30.86, 30.88, and 30.89 of chapter 30 of the November 1999 Report of the Auditor General of Canada to the House of Commons, all of which are fully endorsed by the House of Commons Standing Committee on Public Accounts.**

Conclusion

It is difficult to underestimate the value and importance of the federal government's contracting activities. In 1997, for example, contracts of $25,000 and above for all types of services (and thus subject to the rules governing sole-source contracts) had a total value of $3.9 billion. These contracts, as mentioned at the outset, represent a substantial source of income for suppliers, their employees, and the communities they are located in. For departments and agencies, the ability to contract for services offers a potentially efficient way of complementing in-house capacity in a cost-effective manner.

It is therefore disturbing to learn – yet again – that the contracting process is poorly managed and that the rules surrounding it are either not understood, or worse, ignored. The rules clearly establish that open, competitive bidding for contracts valued at $25,000 and above must be the norm. This is the best way to ensure that all parties – government, suppliers, and taxpayers – get the best deal. The rules clearly state that competitive bidding must only be set aside under exceptional circumstances and that decisions to do so must be fully justified and documented. When these rules are broken, no one – with the exception of the recipient of a directed contract – gets a good deal.

ACANs – which do provide transparency – could go a long way in compensating for benefits lost when the traditional bidding process is not used. But instead they are openly being managed in a way that negates any of the advantages they might offer. Remedies are available and not difficult to put into practice.

The Committee is therefore at a loss to understand why corrective and decisive action has not been taken to improve ACANs and eliminate non-compliance with contracting rules. The testimony provided by officials from Treasury Board Secretariat certainly failed to provide a satisfactory explanation. The Committee is also at a loss to understand why a number of sound recommendations presented by the Auditor General of Canada were, in his words, “flatly rejected.”

The Committee agrees with the Auditor General that the “tide of non-compliance [with contracting regulations] is now so high that … it can no longer be ignored.” (1540) It therefore expects that its recommendations and those submitted by the Auditor General of Canada will be treated in a spirit similar to the one in which they have been presented.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos. 20 and 28)* is tabled.

Respectfully submitted,

John Williams, M.P.

Chair

REPORT TO THE HOUSE

Thursday, 8 June 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

THIRTEENTH REPORT

The Committee has reviewed Chapters 23 and 24 of the November 1999 Report of the Auditor General of Canada (*Involving Others in Governing: Accountability at Risk* – and – *The Canadian Adaptation and Rural Development Fund: An Example of Involving Others in Governing)* and has agreed to report as follows:

Introduction

Traditionally, government programs and services are delivered by the departments and agencies that report directly to ministers and are subject to common administrative rules and regulations. In recent years, however, the federal government has been experimenting with new forms of delivery that involve outside organizations, either as agents or as suppliers of services. Federal regulation of these new methods of delivering programs and services has been entrusted to outside entities that are not directly accountable to ministers and Parliament.

These new governance arrangements challenge the principles of parliamentary control and accountability. If the arrangements make no specific provision for accountability and parliamentary review, the government's ability to determine whether the funds and authority are being used in accordance with federal objectives may be compromised.

While there is a risk of accountability being watered down, these new governance arrangements can also be more flexible, efficient and effective. The delivery of government programs and services entails a constant quest for balance between efficiency, results and adequate accountability.

Given the Public Accounts Committee's interest in accountability and new governance arrangements, it was decided to review chapters 23 and 24 of the November 1999 Report of the Auditor General of Canada. The Committee held two meetings on the issue. Witnesses appeared first on February 24, 2000. The Office of the Auditor General of Canada was represented by L. Denis Desautels (Auditor General of Canada), Maria Barrados (Assistant Auditor General) and Neil Maxwell (Principal, Audit Operations). Appearing on behalf of the Treasury Board Secretariat of Canada were Richard B. Fadden, (Assistant Secretary, Government Operations Sector), Tom Fitzpatrick, (Senior Policy Officer, Service and Innovation), Ralph Heintzman, (Assistant Secretary, Service and Innovation) and Toby Fyfe, (Director, Alternative Service Delivery Division, Service and Innovation). The second meeting was held on March 21, 2000, and the Office of the Auditor General of Canada was represented by Maria Barrados, Henno Moenting and John Mayne (Principals, Audit Operations). E. L. Shipley (Director General, Information Management and Project Delivery, Infrastructure Works Canada), Tom Fitzpatrick and Toby Fyfe appeared on behalf of the Treasury Board Secretariat of Canada.

Observations and Recommendations

Over the past decade, the government has increasingly joined forces with other levels of government, the private sector and the voluntary sector to ensure the delivery of its programs and services. These new arrangements raise a major concern: how will they ensure appropriate accountability to Parliament and the Canadian public regarding the objectives of federal policy. It is not easy to come up with an appropriate and acceptable accountability system when a joint program is being delivered under a separate set of rules by federal and provincial partners or when a partner operates outside the public sector under the *Canada Corporations Act* or the *Canada Business Corporations Act*.

It is important for Parliament to insist that new governance arrangements ensure adequate accountability. Information must be available in order to determine whether those arrangements are working, whether the resources and public funds are being used wisely, and whether the public interest is being well served.

Chapter 23 describes the key elements of a governance arrangement for all levels of governance. Those elements include disclosure to Parliament and the public of pertinent information about the arrangement and its performance relative to the established objectives; effective accountability mechanisms to ensure that suitable audit and evaluation systems are put in place; adequate transparency for major decisions; and mechanisms to protect the public interest, such as citizen complaint and redress mechanisms.

Not all the governance arrangements audited were created on the basis of the above elements. The Auditor General of Canada, Denis Desautels, urged the Committee to ask the Treasury Board Secretariat of Canada about the status of efforts to develop a framework that departments should use when creating new governance arrangements. Mr. Desautels expressed the view that MPs should be consulted so that the framework conveys their concerns about accountability.

Mr. Desautels suggested that the Committee could ask departments to review their current arrangements and come up with remedial plans if there are any problems with those arrangements.

The Committee is very concerned about the large number of weaknesses in the framework of many existing governance arrangements. For example, the audit identified several cases of governance arrangements that had problems with the monitoring regime (for example, poor financial management and inadequate controls) and other cases where there were elements missing from their accountability mechanisms (poorly defined performance expectations, vague provisions regarding evaluations, etc.).

The Committee therefore recommends:

That the Treasury Board Secretariat review and develop as quickly as possible a new general governance framework to ensure more consistent direction and to guide departments and agencies when they are establishing frameworks for their own governance arrangements. The Treasury Board Secretariat should report to Parliament on the status of this initiative in its Performance Report, beginning with the report covering the year ending March 31, 2000;

That the Treasury Board Secretariat encourage departments to identify opportunities to review and renegotiate with their partners new governance arrangements that incorporate all the essential elements of an effective governance framework; and

That departments which sponsor new governance arrangements review their governance frameworks and regularly report to Parliament through their plans and priorities reports. The report should include the departmental action plans and implementation timetables, as well as the financial, technological and human resources allocated to those efforts. Departments will have to inform Parliament of their progress on these initiatives in their Performance Reports, beginning with the report covering the year ending March 31, 2000.

A disturbing fact brought to light by the audit is that the government was unaware of the scope of governance arrangements. At the beginning of its investigation, the audit team asked the government how many new governance arrangements had been created since 1990, what form those arrangements took and how much money the federal government had committed to them. The government had little or no information about the number of new service delivery alternatives or new governance arrangements.

The audit also showed that many new governance arrangements include more than one agreement. According to the Office of the Auditor General of Canada, if all agreements of that type are included, the total number of new arrangements rises to more than 280. The Committee asked the Office of the Auditor General for a complete, up-to-date list of these multiple agreements.

The Committee therefore recommends:

That the Treasury Board Secretariat develop and maintain a database listing the number of new governance arrangements created, classified by basic form (cooperative arrangement, delegated governance, etc.) and the total amount of federal government funds committed annually by type of governance arrangement. This information will have to be submitted to Parliament in table form in the Performance Reports, beginning with the report covering the year ending March 31, 2000;

That the Treasury Board Secretariat develop and maintain a database listing the number and type of new governance arrangements that include more than one agreement, and the total amount of federal funds committed annually. This information will have to be submitted to Parliament in table form in the Performance Reports, beginning with the report covering the year ending March 31, 2000; and

That the Treasury Board Secretariat publish all the above information on new governance arrangements as well as all other pertinent information in its annual report to Parliament entitled *Crown Corporations and other Corporate Interests of Canada*, beginning with the report covering the year ending July 31, 2000.

The Financial Information Strategy (FIS) is an initiative aimed at modernizing and improving financial systems and accounting practices in the federal government by adopting full accrual accounting. The FIS is designed to improve decision making and accountability. The Committee supports this initiative and wanted to know how the strategy could help new governance arrangements.

According to the witnesses, the FIS will ensure closer comparison between financial information and operational data, which in turn will provide a vital tool for managers to use in making decisions and administering government programs. The FIS will certainly lead to improvements in the production of credible reports and accounting mechanisms.

The direct impact of the FIS on partnership governance arrangements will be limited by the scope of federal involvement in the cooperative arrangements. Delegated governance arrangements will not be directly affected by the FIS at all because they have their own financial systems and accounting practices.

Nevertheless, the Committee believes that the FIS is still a valid and indispensable initiative that will support partnership arrangements by improving the production of credible reports and accountability.

The Committee therefore recommends:

That the Treasury Board Secretariat inform the Standing Committee on Public Accounts of the means and methods it plans to use to assist and encourage all federal government departments and agencies to implement the Financial Information Strategy (FIS) by the April 1, 2001, deadline, and that it provide that information by October 31, 2000;

That the Treasury Board Secretariat report to Parliament on the status of overall implementation of the Financial Information Strategy (FIS) on a regular basis through its Performance Report, beginning with the report covering the year ending March 31, 2000; and

That the Treasury Board Secretariat inform the Standing Committee on Public Accounts of the means it plans to use to encourage departments and agencies to include in their accountability documents plans and timetables for implementing the Financial Information Strategy (FIS), and that it provide that information by October 31, 2000.

Conclusion

The Committee acknowledges the government's efforts to correct the deficiencies brought to light by the audit of new governance arrangements, but is still deeply concerned, particularly about practices related to accountability. While the federal government may have legitimate reasons for seeking new, more flexible and more effective methods of delivering its programs and services to Canadians, it must ensure that parliamentary control is never undermined by that quest. The lack of full monitoring of these new governance arrangements cannot be tolerated given the large amounts of federal money involved. In the interest of sound administration and management of public funds, the federal government cannot allow this situation to continue and must act immediately on the recommendations made by the Auditor General of Canada and the Standing Committee on Public Accounts in order to stem the erosion of accountability to the Parliament of Canada.

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos 14, 18 and 28)* is tabled with this report.

Respectfully submitted,

John Williams, M.P.

Chair

REPORT TO THE HOUSE

Thursday, 8 June 2000

Pursuant to Standing order 108(3)(e), the Standing Committee on Public Accounts has the honour to present its

FOURTEENTH REPORT

The Standing Committee on Public Accounts has considered Chapter 4 of the April 2000 Report of the Auditor General of Canada (*Indian and Northern Affairs Canada -- Elementary and Secondary Education*) and the Committee has agreed to report the following:

Introduction

The federal government of Canada has assumed direct responsibility for the provision of education to First Nation communities since the 1600s. Since the 1950s, however, this responsibility has gradually been delegated to the First Nations and the provinces. The *Constitution Act of 1867*, as well as various statutes, treaties, agreements and policies, gives to the federal government of Canada the jurisdiction over First Nations and the lands reserved for them. While education is an exclusive provincial jurisdiction, the federal government is empowered under the provisions of several treaties to deliver education services to On-reserve students.

The Department of Indian and Northern Affairs Canada (INAC) has developed a system of funding agreements under which the Department continues to fund elementary and secondary education for On-reserve students. The federal government applies provincial standards to education provided to On-reserve students whether they are enrolled in reserve, provincial or federal schools.

Both the federal government and the First Nations accord high priority to education. The quality of education for First Nations will have significant repercussions on the development of individuals, the survival of First Nation cultures, and the social and economic status of First Nation communities.

To ascertain the department's success in carrying out its mandate on elementary and secondary education for the First Nations, the Committee decided to examine Chapter 4 of the Auditor General of Canada's April 2000 Report. On May 18, 2000, the Committee met to consider the evidence. Representing the Office of the Auditor General of Canada were Mrs. Sheila Fraser (Deputy Auditor General), and Mr. Grant Wilson (Principal, Audit Operations Branch). The witnesses representing the Department of Indian and Northern Affairs Canada were Mrs. Shirley Serafini (Deputy Minister), Mr. Dennis Wallace (Associate Deputy Minister) and Mr. Bob Coulter (Director, Employment and Human Development).

Observations and Recommendations

In her opening statements, Mrs. Fraser indicated to the Committee that whether INAC delivers education services directly to On-reserve children or delegates the provision of these services through special agreements with the First Nations, the Department retains the responsibility for the cost and appropriateness of education to First Nations. Against this background, the audit asked the following questions. Does the department have a reasonable assurance that it is meeting its objectives for education? Is the department exploiting existing opportunities for operational improvements? Has the department demonstrated accountability for results? While INAC has already undertaken initiatives to deal with certain issues, there are still several fundamental questions that remain unresolved.

First, what role INAC ought to play in the delivery of educational services to First Nations? The Department still hasn't fully articulated its role in education, despite the fact that it has been devolving education to First Nations for at least 30 years. Clarification is required to assist the Department in determining whether its existing capacity and resources are sufficient to achieve its objectives.

The audit also noted a serious gap in academic achievement of First Nation's On-reserve students with respect to the overall population of students. The Department has been aware of this situation for over a number of years, yet has failed to take any prompt and effective remedial action.

Finally, while INAC collects some basic data on education, yet it still has not developed indicators of performance and of results to demonstrate accountability and to provide assurance that it is achieving its objectives.

There is also a need for operational improvements of the funding agreements to the First Nations, including how the Department administers education funding. Most notably, collect more relevant cost data, better management of funding arrangements, closer and more frequent consultations with First Nations in order to develop better tailored curriculum and delivery instruments, and obtain and use school evaluations to assess overall school performance and identify school specific issues.

The Deputy Minister, Mrs. Shirley Serafini, assured the Committee that INAC is determined to act on the Auditor General's recommendations. There is recognition of the concerns raised in the audit, notably the need to clarify the Department's role in delivering education to First Nations, to develop and use appropriate performance measures and to strengthen the Department's operational importance.

The Committee members expressed concern about the Department's lack of clearly defined role in the delivery of education services to First Nations. While the Department's professed goal for education is to assist First Nations achieve their needs and aspirations, there remains considerable ambiguity and inconsistency in the way INAC carries out this mandate. Some of INAC's departmental regions consider their major responsibility as that of providing a funding service, while other regions view their role more in the light of developing education programs. As its relationship with First Nations evolve, the Department will eventually have to decide whether its role should be that of a funding agency, a monitor, an education standards-setting body, capacity builder, advisor or co-ordinator – or all, some or none of these.

The Department must clarify and formalise its role and responsibilities. Otherwise, its accountability for results is weakened and assurances that education funding is being spent in an appropriate fashion are unclear at best. This leads the Committee to recommend the following:

> **That Indian and Northern Affairs Canada immediately undertake a comprehensive review of its role in education in order to better achieve its objectives and discharge its responsibilities to First Nations. And at the completion of this review, provide a clear and formal statement of its roles and responsibilities in its *Report on Plans and Priorities* and *Departmental Performance Report* beginning for the fiscal year ending March 31st, 2001; and**
>
> **That Indian and Northern Affairs Canada, when defining its mandate, take into account the role and accountabilities of other parties, clearly define the deliverables it must produce and its accountabilities for results, and communicate its roles and responsibilities to all other parties.**

Given that over the last 30 years, the Department has been devolving to many of the First Nations the responsibility for the delivery of education services, the Committee enquired whether INAC undertook evaluations to determine if First Nations possessed the capacity to deliver education services directly to its population.

The audit found that funding agreements did contain some provisions to evaluate capacity of First Nations through self-assessments but these have been executed on an inconsistent basis. The Committee therefore recommends:

That Indian and Northern Affairs Canada, before devolving education services to First Nations, first analyse their capacity to undertake these new responsibilities, identify areas of weakness, and develop joint action plans with implementation timetables to ensure that the First Nations possess the capacity to assume these new responsibilities in delivering education services.

The Committee is very worried about the significant gap in educational achievement between Indian students and non-indian students. Between 1991 to 1996, the high-school completion rates of On-reserve students rose from 31 percent to 37 percent. This modest improvement in aboriginal educational achievement still compares poorly with the high-school completion rate of 65 percent for the overall Canadian population in 1996. At current rates of improvement, it would take approximately 23 years to close the gap between Indian and Non-Indian high-school completion rates.

This gap in educational achievement between Indian and Non-Indian student populations cannot be allowed to persist. Poor academic performance will very likely affect the current well being of On-reserve students, as well as their socio-economic standing in the future. In order to prevent further academic decline, the Committee strongly urges the Department to immediately undertake the required corrective measures. Thus it recommends that:

That Indian and Northern Affairs Canada, in collaboration with First Nations, immediately develop action plans together with implementation timetables in order to close the education gap between On-reserve student population and the overall Canadian student population. And that it reports the progress of these initiatives in its *Departmental Performance Reports* beginning for the fiscal year ending March 31st, 2001;

That Indian and Northern Affairs Canada develop comparative performance indicators of academic achievement between On-reserve students and students of the overall Canadian population, and use these indicators to measure the progress of the action plans in closing the education gap; and

That Indian and Northern Affairs Canada report the progress of these actions plans to close the education gap in their *Departmental Performance Reports* beginning for the fiscal year ending March 31st, 2001.

In terms of the Department's management and administration of the On-reserve educational programs, the Committee noted that there were considerable opportunities for improvement in the development of performance and results indicators, in the collection and quality of cost information, and in updating funding allocation formulas:

That Indian and Northern Affairs Canada immediately develop performance and results indicators, together with performance targets of achievement that are in accordance to its stated objectives, and that it report the progress of this initiative in its *Departmental Performance Report* beginning for the fiscal year ending March 31st, 2001;

That Indian and Northern Affairs Canada immediately develop an action plan to improve the collection of cost information in order to obtain accurate, relevant and comparable per-student costs and implement the required cost analysis to assist the Department in its resource allocation decisions. That the progress of this initiative be reported in the *Departmental Performance Report* beginning for the fiscal year ending March 31st, 2001; and

That Indian and Northern Affairs Canada immediately develop an action plan together with a timetable for implementation to update its regional funding formula. That the progress of this initiative be reported in the *Departmental Performance Report* beginning for the fiscal year ending March 31st, 2001.

The Committee was clearly preoccupied about the many issues that needed to be addressed for the Education Funding Agreements. The audit uncovered many shortcomings with regard to their management and administration, specifically the lack of funding agreements, the resolution of outstanding funding disputes between First Nations and provincial authorities, the monitoring of the implementation of the agreements, etc.:

That Indian and Northern Affairs Canada immediately develop and implement action plans to address all the shortcomings in their Education Funding Agreements with First Nations, and that it report on the progress of these action plans in its *Departmental Performance Reports* beginning for the fiscal year ending March 31st, 2001; and

That Indian and Northern Affairs Canada, in collaboration with First Nations and provinces, develop monitoring and consultation mechanisms to ensure proper feedback and accountability between all involved parties. And that the Department report on the progress of this initiative in its *Departmental Performance Report* beginning for the fiscal year ending March 31st, 2001.

One particular area of concern was the outstanding issue of the disclosure of financial statements by First Nations. When a member of the Committee enquired on the availability of financial information on education programs, INAC officials indicated that they receive from First Nations audit reports on revenue and expenditures on a program basis but that overall consolidated audits are not made public. This state of affairs is the result of a 1988 court decision, which ruled that financial statements of First Nations could not be disclosed to the public because their consolidated financial statements often contain financial reports on businesses owned by First Nations.

The INAC officials further indicated that the Minister is currently working with First Nations and certified general accountants to find ways of improving the disclosure of financial information of First Nations, particularly with regards to the receipt and disposition of public funds. Specifically, the intent of these discussions would be to develop schedules that would show federal contributions and disposition of these funds by the First Nations.

The Committee acknowledges the current efforts and makes the following recommendation:

That Indian and Northern Affairs Canada include provisions in all future funding agreements that require the disclosure of First Nations financial statements relating to the receipt and disposition of funds provided by the federal and provincial governments of Canada.

Conclusion

The Committee is very concerned about the state of elementary and secondary education for the First Nations. The observed gap in academic achievement between On-reserve high school students and the overall population of high school students cannot be tolerated. This situation must not be allowed to persist, otherwise, it will not augur well for the current and future well being of the First Nations in particular, and for Canada in general.

The Committee is dissatisfied by the Department's "hands-off" approach in the management and administration of the education programs and special funding agreements. While decentralisation or devolution of responsibilities may be sound in principle, it must be accompanied with clearly defined roles and responsibilities to which all parties agree to comply, together with proper monitoring and consultation mechanisms to ensure feedback and prevent disagreements from becoming unmanageable.

There is broad understanding of the issues involved, the Committee expects the Department to rapidly demonstrate real progress in the resolution of the many shortcomings identified by the audit.

Pursuant to Standing Order 109, the Committee requests that the Government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings (Meetings Nos. 25 and 28)* is tabled.

Respectfully submitted,

John Williams, M.P.

Chair

APPENDIX D

REPORT ON THE AUDIT OF THE PRESIDENT OF THE TREASURY BOARD'S REPORT TO PARLIAMENT

TABLINGS IN PARLIAMENT FOR PARENT CROWN CORPORATIONS: ANNUAL REPORTS AND SUMMARIES OF CORPORATE PLANS AND BUDGETS

The *Financial Administration Act* requires the President of the Treasury Board to lay before each House of Parliament a report concerning the timing of tabling, by appropriate ministers, of annual reports and summaries of corporate plans and budgets of Crown corporations subject to the reporting provisions of Part X of the Act.

The report on these tablings allows Parliament to hold the appropriate ministers (and, ultimately, the Crown corporations) accountable for providing, within the relevant statutory deadlines, the information required under the *Financial Administration Act*. Accordingly, the report is required to indicate the time at, before, or within which the annual reports and the summaries of corporate plans, capital budgets and operating budgets (and amendments to them) were required to be tabled before each House during the reporting period, and the time they were actually tabled. The report on tablings is the responsibility of the President of the Treasury Board and is included in his/her annual report to Parliament, *Crown Corporations and Other Corporate Interests of Canada*, which is required to be tabled not later than 31 December (not tabled for 2000 at time of going to press).

As required by subsection 152(2) of the *Financial Administration Act*, I have audited the information contained in the President of the Treasury Board's report on tablings for the year ended 31 July 2000. Further, I am required to report on this audit in my annual Report to the House of Commons.

I conducted my audit in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. Those standards require that I plan and perform an audit to obtain reasonable assurance as to whether the report on tablings is free of significant misstatement. My audit included examining, on a test basis, the systems and procedures used by the Treasury Board Secretariat to monitor the tabling of the summaries and annual reports in each House of Parliament, and the information contained in the report. Accordingly, it included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, the information contained in the report on tablings is accurate, in all significant respects, in accordance with the description of the Deadlines for Tabling in Parliament disclosed in the report.

The following paragraphs are intended to highlight certain information that I believe may be of interest to members of the House of Commons and that are not highlighted or disclosed in the report on tablings in its current format.

This year's report on tablings identifies 78 instances of documents that were tabled late. This represents an increase in the number of late tablings from previous years, particularly with respect to documents that were due to be tabled for the first time in the year covered by the report. We have encouraged the Treasury Board Secretariat to investigate the reasons for this increase.

The report does not disclose that, in twenty-three instances, corporate plans were approved by the Governor in Council after the beginning of the period covered by the plans. In nine of those instances, plans were approved more than two months after the beginning of the period covered.

In past years, I have reported that only the first year of some corporations' five-year corporate plans had been approved and that this was not disclosed in the reports on tablings. This year, the report on tablings discloses the fact that some corporate plans were approved by the Governor in Council for only their first year.

John Wiersema, CA
Assistant Auditor General
for the Auditor General of Canada
Ottawa, Canada
22 November 2000

APPENDIX E

The Costs of Crown Corporation Audits Conducted by the Office of the Auditor General of Canada

Section 147 of the *Financial Administration Act* requires that the Office disclose the costs of preparing audit reports on all Crown corporations other than those exempted under section 85 of the Act (see Exhibit 1). An audit report includes an opinion on a corporation's financial statements and on its compliance with specified authorities. It may also include reporting on any other matter deemed significant.

The Office is also required by section 68 of the *Broadcasting Act* to report the cost of any audit report on the Canadian Broadcasting Corporation. For the fiscal year ended 31 March 2000, the full cost of the annual audit report was $421,035.

Section 138 of the *Financial Administration Act* requires that, at least once every five years, each parent Crown corporation named in Schedule III of the Act undergo a special examination. This is distinct from the requirement for the annual audit of financial statements.

The objective of a special examination is to determine whether a corporation's financial and management control and information systems and its management practices provide reasonable assurance that:

- assets have been safeguarded and controlled;
- financial, human and physical resources have been managed economically and efficiently; and
- operations have been carried out effectively.

In 1999-2000 the Office completed the special examination of twelve Crown corporations. The costs were:

Canada Deposit Insurance Corporation	$557,219
Canada Development Investment Corporation (Joint Examiner)	$62,401
Enterprise Cape Breton Corporation	$276,600
Export Development Corporation	$847,708
Fresh Water Fish Marketing Corporation	$228,743
Marine Atlantic Inc.	$387,965
National Gallery of Canada	$483,776
National Museum of Science and Technology	$547,234
Old Port of Montreal Corporation Inc.	$355,393
Queens Quay West Land Corporation	$28,617
Royal Canadian Mint	$603,974
Standards Council of Canada	$301,829

Exhibit 1

Costs of Preparing Annual Audit Reports for Fiscal Years Ending on or before 31 March 2000

Crown Corporation	Fiscal Year Ended	Cost Incurred
Atlantic Pilotage Authority	31.12.99	$ 60,217
Atomic Energy of Canada Limited (Joint Auditor)	31.03.00	266,175
Business Development Bank of Canada (Joint Auditor)	31.03.00	301,271
Canada Deposit Insurance Corporation	31.03.00	84,548
Canada Development Investment Corporation (Joint Auditor)	31.12.99	44,934
Canada Lands Company Limited (Joint Auditor)	31.03.00	203,237
Canada Mortgage and Housing Corporation (Joint Auditor)	31.12.99	275,293
Canadian Commercial Corporation	31.03.00	100,013
Canadian Dairy Commission	31.07.99	104,820
Canadian Museum of Civilization	31.03.00	80,067
Canadian Museum of Nature	31.03.00	77,118
Cape Breton Development Corporation	31.03.00	234,455
Defence Construction (1951) Limited	31.03.00	49,505
Enterprise Cape Breton Corporation	31.03.00	96,140
Export Development Corporation	31.12.99	454,399
Farm Credit Corporation	31.03.00	323,345
Federal Bridges Corporation Ltd.	31.03.00	42,683
Freshwater Fish Marketing Corporation	30.04.99	71,517
Great Lakes Pilotage Authority, Ltd.	31.12.99	48,897
Laurentian Pilotage Authority	31.12.99	60,485
Marine Atlantic Inc.	31.12.99	205,089
National Capital Commission	31.03.00	204,639
National Gallery of Canada	31.03.00	94,568
National Museum of Science and Technology	31.03.00	74,359
Old Port of Montreal Corporation Inc.	31.03.00	120,120
Pacific Pilotage Authority	31.12.99	39,458
Petro-Canada Limited	31.12.99	14,232
Queens Quay West Land Corporation	31.03.00	33,785
Royal Canadian Mint	31.12.99	245,254
Seaway International Bridge Corporation Ltd.	31.12.99	40,435
The Jacques Cartier and Champlain Bridges Incorporated	31.03.00	61,943
Standards Council of Canada	31.03.00	38,504
VIA Rail Canada Inc. (Joint Auditor)	31.12.99	230,545

Report of the
Auditor General of Canada to the House of Commons – 2000
Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6
5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter	
15	Health Canada – First Nations Health: Follow-up
	Other Observations
16	Follow-up of Recommendations in Previous Reports
17	Other Audit Observations

Volume 3 – December 2000

Chapter	
	Matters of Special Importance – 2000 Foreword and Main Points
18	Governance of Crown Corporations
19	Reporting Performance to Parliament: Progress Too Slow
20	Managing Departments for Results and Managing Horizontal Issues for Results
21	Post-Secondary Recruitment Program of the Federal Public Service
22	Development of the Universal Classification Standard: A Follow-up
23	Information Technology: Acquisition of Goods and Services
	Protecting Health and Safety
24	Federal Health and Safety Regulatory Programs
25	Canadian Food Inspection Agency – Food Inspection Programs
26	Health Canada – Regulatory Regime of Biologics
27	Canadian Nuclear Safety Commission – Power Reactor Regulation
28	Follow-up of Previous Recommendations on Health and Safety Regulatory Programs
29	Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998
30	Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks
31	Fisheries and Oceans – Fleet Management
32	National Defence – Defence Support Productivity: A Progress Report
	Other Observations and Appendices
33	Follow-up of Recommendations in Previous Reports
34	Other Audit Observations
35	Sustainable Development Strategy for the Office of the Auditor General

Report of the
Auditor General of Canada
to the House of Commons

Chapter 35
Sustainable Development Strategy for the Office of the Auditor General

December 2000

This December 2000 Report comprises 18 chapters, including "Matters of Special Importance", as well as a Foreword and the Main Points from the April, October and December 2000 Report chapters. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

© Minister of Public Works and Government Services Canada 2000
Cat. No. FA1-2000/3-35E
ISBN 0-662-29593-5
Copies françaises aussi disponibles

Chapter 35

Sustainable Development Strategy for the Office of the Auditor General

Table of Contents

	Page
Summary	35-5
Introduction	35-7
A sustainable development strategy — helping to turn words into action	35-7
Characteristics of our strategy	35-7
Who should read this strategy?	35-8
The Role of the Office of the Auditor General and the Commissioner of the Environment and Sustainable Development	35-8
The Office's vision and mission	35-10
Our resources and our organization	35-10
Our priorities	35-10
Our influence and impact on the environment and sustainable development	35-10
International activities	35-11
The Commissioner of the Environment and Sustainable Development	35-13
Experience Gained From Our First Strategy	35-14
Our management of sustainable development	35-14
Our performance	35-16
Some performance was not measured	35-16
What we have learned	35-16
Our Second Strategy	35-18
Updating our strategy and our performance framework	35-20
Selecting the right combination of objectives/activities/indicators/targets	35-20
Linking our sustainable development action plan to other activities in the Office	35-21
Issues associated with our three core activities	35-22
Specific issues that will require additional attention during the next three years	35-22
Working with others	35-22
On the path toward sustainable development	35-22

Exhibits

35.1	What Do We Mean by Sustainable Development?	35-7
35.2	Our Sustainable Development Strategy	35-9
35.3	Our Sustainable Development Management Process	35-14
35.4	Examples of Performance Indicators	35-15
35.5	Significant Findings From the Management Review of Our First Sustainable Development Strategy	35-17
35.6	Analyzing Reasons for Unexpected Changes	35-19
35.7	The Social Dimension of Sustainable Development	35-19
35.8	Streamlining Our Second Strategy	35-20
35.9	Key Recommendations of the Management Review	35-21

Page

Appendices

A. Strategy Team 35-23
B. Internal Consultations Summary: June and July 2000 35-24
C. 2001-2004 Action Plan for Sustainable Development 35-25
D. Steps in Developing Our Second Strategy 35-29

Sustainable Development Strategy for the Office of the Auditor General

Summary

35.1 In our second sustainable development strategy, we commit to helping the federal government continually improve its management of environmental and sustainable development issues and to ensuring that our own operations are managed in an environmentally responsible manner.

35.2 We have made good progress in implementing our first strategy, but there are several areas that require improvement. Our biggest challenge is to further integrate environmental and sustainable development issues into our audit work. We need to better document changes made to our action plan, and we must also update and complete the implementation of our environmental and sustainable development training plan.

35.3 Our experience with the first strategy has allowed us to simplify our approach to managing sustainable development issues. We have reduced the number of goals and objectives and the indicators of performance that we use to measure our progress; and we have linked our actions to our planned results. From our experience with the first strategy, we learned that we needed to balance our environmental aspirations with other factors, such as increasing the quality of working life.

35.4 During the past three years our Office, including the Commissioner of the Environment and Sustainable Development, has reported our findings to Parliament on subjects that include the government's management of smog, toxic substances, climate change, hazardous wastes, biodiversity and sustainable fisheries. We have reviewed the implementation of the first round of departmental strategies. Finally, we have assessed the performance of departments and agencies and provided guidance on how they can improve their management of environmental and sustainable development issues and reduce the environmental impacts of their own operations.

35.5 In the next three years, we will continue to perform audits of environmental issues and to follow up on our previous audits. In 2001 we plan to report on an audit of the way the federal government manages its responsibilities for selected sustainable development issues that affect the Great Lakes and St. Lawrence River basin.

35.6 Following amendments to the *Auditor General Act* in 1995 that formally incorporated environmental and sustainable development issues into our mandate, 24 federal departments and agencies tabled their first sustainable development strategies in the House of Commons in December 1997. Another four departments and agencies, including the Office of the Auditor General, voluntarily submitted strategies. The *Auditor General Act* requires that the strategies be updated every three years, and the second round of strategies was due to be tabled by December 2000 if Parliament were sitting.

35.7 The framework for our strategy focusses on three major areas: our audit work, our day-to-day operations, and our human resources. We believe it is in our audits and studies of federal organizations that we have the greatest impact.

35.8 Our sustainable development strategy aims to promote sustainable development among parliamentarians, federal organizations and Canadians in general. More specifically, our strategy tells parliamentarians how we integrate environmental and sustainable development considerations into our business as a legislative audit office, and how we measure the success of our efforts.

35.9 In the past three years, our Office has brought many environmental and sustainable development issues to the attention of Parliament and federal organizations through our financial audits, special examinations and value-for-money audits, including our reviews of the sustainable development strategies. We have provided guidance through studies and other publications, including *Moving Up the Learning Curve,* a 1999 report by the Commissioner of the Environment and Sustainable Development. That report set out what the Commissioner expected to see in the second round of sustainable development strategies.

35.10 This chapter sets out our own second strategy. It includes:

- a description of our Office — our mandate, the work we do and the impact that we aspire to achieve;
- a summary of our performance and the lessons learned from our first strategy; and
- our objectives, indicators of performance and our planned results for the next three years.

Introduction

A sustainable development strategy — helping to turn words into action

35.11 A sustainable development strategy presents an organization's objectives and plans of action to advance sustainable development. Exhibit 35.1 discusses the meaning of "sustainable development."

35.12 Sustainable development strategies are intended to help departments and agencies broaden their perspective on what they do and how they do it — to take environmental, economic and social considerations into account more systematically in their policies, programs and operations. The intent is to help turn sustainable development from words into action. Sustainable development strategies provide benchmarks against which departments can measure their progress.

35.13 This field has seen considerable progress over the past decade. International organizations like the Organisation for Economic Co-operation and Development (OECD) and the International Organization for Standardization (ISO) have increased our understanding of the concept of sustainable development. Organizations are better able to manage for sustainable development and to measure the results of their efforts.

35.14 Organizations need to view sustainable development strategies as an ongoing cycle of action, learning from others' experience through a participatory approach, and using that learning to improve policies and programs. They need to put more emphasis on the participation and learning than on the production of the document that describes the strategy.

Characteristics of our strategy

35.15 Our sustainable development strategy is designed to be comprehensive, results-oriented and developed through consultation:

- **comprehensive** because it covers the environmental and sustainable development aspects of our audit work and our day-to-day operations;
- **results-oriented** because we have identified the actions we need to take and the indicators we will use to measure performance toward each of our sustainable development objectives;
- **developed through consultation** within the Office and with our clients. Obtaining different points of view was very useful to us (see appendices A and B).

35.16 To successfully implement our strategy, we will require the continued support, involvement and commitment of senior management. Staff members must also adopt the strategy as their own and identify their part in the activities suggested for achieving it. With proper

Sustainable development strategies provide benchmarks against which departments can measure their progress.

Exhibit 35.1

What Do We Mean by Sustainable Development?

By sustainable development, we mean "development that meets the needs of the present without compromising the ability of future generations to meet their needs" (World Commission on Environment and Development, Our Common Future, 1987).

Sustainable development is a constantly evolving concept based on integrating social, economic and environmental concerns into the activities of private and public organizations.

Progress toward sustainable development requires an integrated approach to planning and decision making — an approach that involves evaluating economic and social solutions on the basis of their effects on the environment and natural resources, and ecological solutions on the basis of their effects on the economy and society.

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oversight by management and with the commitment of individuals, words can be turned into action and sustainable development can be integrated into our activities.

35.17 This Office has considered environmental and sustainable development issues in our audits for well over 10 years. Helping to improve the federal government's performance in protecting the environment and promoting sustainable development is one of the Office's five priorities for 2000 to 2003 (see paragraph 35.27).

35.18 Although the Office is not required by legislation to prepare a sustainable development strategy, we have decided to do so voluntarily and to present it for tabling in the House of Commons. We believe that a sustainable development strategy is a valuable planning tool that will help us to build environmental and sustainable development considerations into the way we conduct our business. It will also assist us in understanding the challenges faced by other departments as they develop and implement their strategies.

Our strategy is a valuable planning tool that will help us to build environmental and sustainable development considerations into the way we conduct our business.

Who should read this strategy?

35.19 The Office's sustainable development strategy is directed to four main groups:

- Members of Parliament, our main clients, who can hold the government to account for its decisions and actions.
- Our staff, on whom the success of this strategy depends. They must be comfortable with the strategy and able to apply it to their activities.
- Federal government employees and managers, with whom the Office maintains very close contact and who are responsible for integrating sustainable development issues into the policies, programs and operations of their organizations.
- Canadian taxpayers, whom the members of Parliament represent and for whom our staff and government employees work.

The Role of the Office of the Auditor General and the Commissioner of the Environment and Sustainable Development

35.20 The first Auditor General was appointed in 1878, primarily to provide assurance to the Government of Canada that moneys were being spent as approved. In 1977, the role of the Office was expanded to audit whether the government and the people of Canada were receiving value for money spent on government programs.

35.21 In 1995, the *Auditor General Act* was amended to create the position of Commissioner of the Environment and Sustainable Development, reporting to the Auditor General. The amendments extended the scope of our audit work to include reporting cases of spending by government without due regard to the environmental effects. The environmental and sustainable development issues to which we can draw attention are the issues faced by the government departments and organizations we audit. We also learn through our involvement with various international organizations and contribute to the advancement of sustainable development knowledge.

35.22 Our Office is different from departments and agencies by virtue of our independence from the government and our reporting relationship to Parliament. Our independence is assured by a broad legislative mandate, freedom from certain controls over our budget and staff, and a 10-year term for the Auditor General. We do not develop policies or manage programs. Instead, we determine whether the government's programs and policies

Exhibit 35.2

Our Sustainable Development Strategy

**Office of the Auditor General
Sustainable Development Goal**

The Office of the Auditor General is committed to helping the federal government continually improve its management of environmental and sustainable development issues, and to ensuring that its own operations are managed in an environmentally responsible manner.

In our audit work:

- We provide information, advice, and assurance to parliamentarians and others on the federal government's performance in managing environmental and sustainable development issues.
- We support federal, territorial and international organizations in their efforts to integrate environmental and sustainable development considerations into their decision making on policies, programs and operations.
- We administer a process (the petition process) that provides for Canadians to bring their environmental and sustainable development concerns to the attention of the Government of Canada in the form of letters or petitions.

Our objectives:

1. To incorporate the environment and sustainable development as an integral part of our audit work.
2. To help strengthen the capacity of federal, territorial and international organizations to continually improve their management of environmental and sustainable development issues and delivery of related programs.
3. To monitor the replies by departments to letters (petitions) presented by Canadians about environmental and sustainable development concerns.

In our day-to-day activities:

- We optimize the use of natural resources and minimize the negative environmental impacts of the OAG's day-to-day operations.

Our objectives:

1. To continually improve our Sustainable Development Management Process (SDMP).
2. To reduce consumption and waste.
3. To purchase, provide and use goods and services in an environmentally responsible manner.

In our management of human resources:

- We support activities that recognize our employees as our greatest assets in pursuing our sustainable development goals.

Our objective: To enhance the awareness and capability of Office staff to incorporate environmental and sustainable development issues in their audit work, the Office's day-to-day operations and society at large.

are administered in a responsible, honest and productive manner.

The Office's vision and mission

35.23 The Office's strategic framework includes vision and mission statements that guide our work.

> **Vision.** We are committed to making a difference for the Canadian people by promoting, in all our work for Parliament, answerable, honest and productive government that reflects a commitment to sustainable development.
>
> **Mission.** The Office of the Auditor General of Canada conducts independent audits and examinations that provide objective information, advice and assurance to Parliament. We promote accountability and best practices in government operations.

35.24 These statements guide all of our work, and from them flows the goal for our sustainable development strategy (see Exhibit 35.2).

Helping to improve the federal government's performance in protecting the environment and promoting sustainable development is an Office priority.

Our resources and our organization

35.25 Reflecting the diverse requirements of our audit work, our staff includes qualified accountants as well as specialists with postgraduate degrees in other disciplines, including engineering, law, statistics, sociology, history, the environment, and economics. Most audit staff work at the head office in the National Capital Region. Regional offices are located in Vancouver, Edmonton, Winnipeg, Montreal and Halifax. For 2000–01, the Office's budget is $54 million and 520 employees.

35.26 The Auditor General presents his annual report and up to three additional periodic reports each year to the Speaker of the House of Commons. The Commissioner, on behalf of the Auditor General, reports annually to the House on various environmental and sustainable development issues. These include the extent to which departments and agencies have met the objectives and acted on the plans set out in their sustainable development strategies. We also report our work in other places and forms, according to the specific legislation of the government entities that we audit. Our reports, as well as other information concerning the Office, are accessible on our Web site at http://www.oag-bvg.gc.ca.

Our priorities

35.27 For 2000 to 2003 the Office has five priorities:

- Help improve the government's finances and information on its financial condition.
- Stimulate advances in accountability concepts and improve accountability practices in government.
- Improve the quality of financial management in government.
- Contribute to necessary changes in the public service.
- Help improve the federal government's performance in protecting the environment and promoting sustainable development.

35.28 We address each of these priorities in our audit work. The fifth priority is also addressed through our day-to-day activities and our human resources, and in the goal of this strategy.

Our influence and impact on the environment and sustainable development

35.29 Through our various audit products, we can influence parliamentarians and federal and territorial departments and organizations, as well as international organizations, on environmental and sustainable development matters. Our products include value-for-money audits, special examinations of Crown corporations, financial attest audits, and our assessment of sustainable development strategies.

- **Value-for-money (VFM) audits.** We examine whether the government's policies, programs and operations are achieving their intended results, including results that affect the environment and sustainable development. During the past three years our Office, including the Commissioner of the Environment and Sustainable Development, has reported our findings to Parliament on subjects that include the government's management of smog, toxic substances, climate change, hazardous wastes, biodiversity and sustainable fisheries. We also consider whether departments that have tabled sustainable development strategies have included appropriate environmental and sustainable development issues in their policy development and program delivery.

- **Special examinations of Crown corporations.** Although not an explicit requirement of the *Financial Administration Act*, during special examinations of Crown corporations we determine whether the systems and practices in place are appropriate for sound management of the corporation's environmental activities. This determination depends on the types of activities the corporation is involved in and their potential impact on the environment. For certain Crown corporations, environmental considerations are integral to their continued well-being.

- **Financial attest audits**. We determine whether environmental costs and liabilities were taken into account when preparing the financial information provided by the Government of Canada, the territorial governments, Crown corporations and certain entities, in accordance with the applicable accounting standards.

- **Assessment of sustainable development strategies.** Annually, the Commissioner for the Environment and Sustainable Development assesses the extent to which departments and agencies have met the objectives and implemented the plans set out in their sustainable development strategies. Further information is provided in the section of this chapter on the Commissioner of the Environment and Sustainable Development (see paragraph 35.34).

35.30 We assess our own ability to conduct high-quality audits that address significant topics and contribute to making a difference. The difference we seek relies on many other parties inside and outside government, and this complicates the task of attributing specific results to our audits. Many share a commitment to good government and an improved environment, and it is really through the co-operation and participation of others that we are able to effect change.

Many share a commitment to good government and an improved environment, and it is really through the co-operation and participation of others that we are able to effect change.

35.31 The environmental impacts associated with our day-to-day operations are relatively limited. Our efforts are aimed at reducing our consumption and waste; purchasing, providing and using products and services in an environmentally responsible manner; and recycling secondary materials.

International activities

35.32 We contribute to the development and dissemination worldwide of international standards, best practices and training programs in various areas of accounting, auditing and reporting, through our involvement in the International Organization of Supreme Audit Institutions (INTOSAI), the Panel of External Auditors of the United Nations, and the audit of UN organizations. We also manage a fellowship program for senior auditors from national audit offices of developing nations. Finally, we audit the international activities of Canadian federal departments and agencies.

35.33 Our international activities help us to raise the awareness of environmental and sustainable development issues in the

There are more and more cars on the highways and roads. From the 2000 Report of the Commissioner of the Environment and Sustainable Development, Chapter 4, Smog: Our Health at Risk.

Barrels kept on the grass without any secondary containment at CFB Cold Lake. From the Auditor General's 1999 Report, Chapter 13, National Defence - Hazardous Materials: Managing Risks to Employees and the Environment.

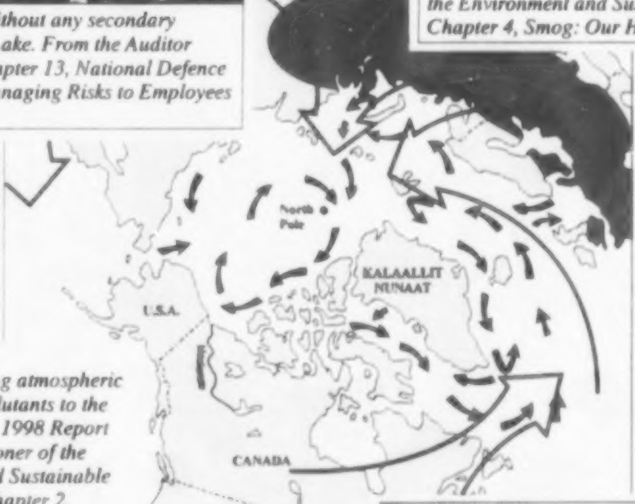


Diagram showing atmospheric migration of pollutants to the Arctic. From the 1998 Report of the Commissioner of the Environment and Sustainable Development, Chapter 2, Working Globally - Canada's International Environmental Commitments.

Canada is home to most of the world's polar bears and has a special stewardship role to play. From the 1999 Report of the Commissioner of the Environment and Sustainable Development, Chapter 6, Making International Environmental Agreements Work: The Canadian Arctic Experience.

Examples of sustainable development issues from our audits (see paragraph 35.29).

national audit offices of developing nations and in various international organizations.

The Commissioner of the Environment and Sustainable Development

35.34 The Commissioner of the Environment and Sustainable Development was first appointed by the Auditor General in 1996. The Commissioner's staff perform value-for-money audits, including audits of specific environmental policies and programs across the federal government. In addition, the Commissioner has the legislative responsibility to monitor and report, on behalf of the Auditor General, the federal government's progress toward sustainable development. This includes monitoring departments' and agencies' implementation of their strategies.

35.35 In December 1999, the Commissioner released the document, *Moving up the Learning Curve*, which set out what the Commissioner expected to see in the second round of sustainable development strategies, due to be tabled by December 2000 if Parliament were sitting.

35.36 The Commissioner expected that departments and agencies would focus their efforts on three areas in developing their second sustainable development strategies:

- **assessing** their first strategies — determining what the first strategy has achieved, what has changed, and what needs to be done differently — and making those assessments available in the consultations leading to the second strategies;
- strengthening the **planning** of strategies — drawing clear links between the departments' activities, the significant impacts of those activities and the priorities for action; and
- accelerating the development of the **management systems** needed to turn the strategies from talk into action.

> I believe that as the largest single enterprise in the country, the federal government can make a significant difference in Canada's prospects for sustainable development.…The services and programs it provides contribute to the social, economic and environmental well-being of Canadians. Finally, as Canada's largest single employer, landlord and purchaser, the federal government can show leadership by managing its day-to-day operations in a sustainable manner.
>
> – Commissioner of the Environment and Sustainable Development, December 1999

The federal government can show leadership by managing its day-to-day operations in a sustainable manner.

35.37 The Commissioner is also responsible for monitoring departments' and agencies' replies to letters or petitions presented by Canadians on environmental and sustainable development issues (the petition process). The *Auditor General Act* requires ministers to respond to petitions within 120 days. Since 1997, we have monitored the responses to 21 petitions from Canadians.

35.38 There are specific results the Commissioner of the Environment and Sustainable Development would like to achieve in the years from 1999 to 2004, in particular:

- narrowing the gap between policy promises and performance, as demonstrated by examples of improvements in program implementation;
- strengthening co-ordination and integration, leading to instances of the elimination of barriers to co-operation; and
- improving information for Parliament, as demonstrated by examples of new information used by parliamentarians or decision makers.

Experience Gained From Our First Strategy

Our sustainable development management process allows us to track and measure our progress against our targets and objectives.

Our management of sustainable development

35.39 During the fall of 1998 we completed the first phase of our environmental management system, which we call our sustainable development management process (SDMP). Information on the SDMP and an explanation of all our related processes are accessible to all employees electronically (see Exhibit 35.3).

35.40 Our sustainable development management process is a way to ensure that we can track and measure our progress against our targets and objectives. It enables us to document systematically who is responsible for doing what and by when, in order to implement our sustainable development action plan for the years to come.

Our strategy encompasses the three core dimensions of our activities: our audit work, our day-to-day activities and the management of our human resources.

35.41 In preparing our first strategy, covering the period December 1997 until March 2001, we developed a framework that comprised three areas:

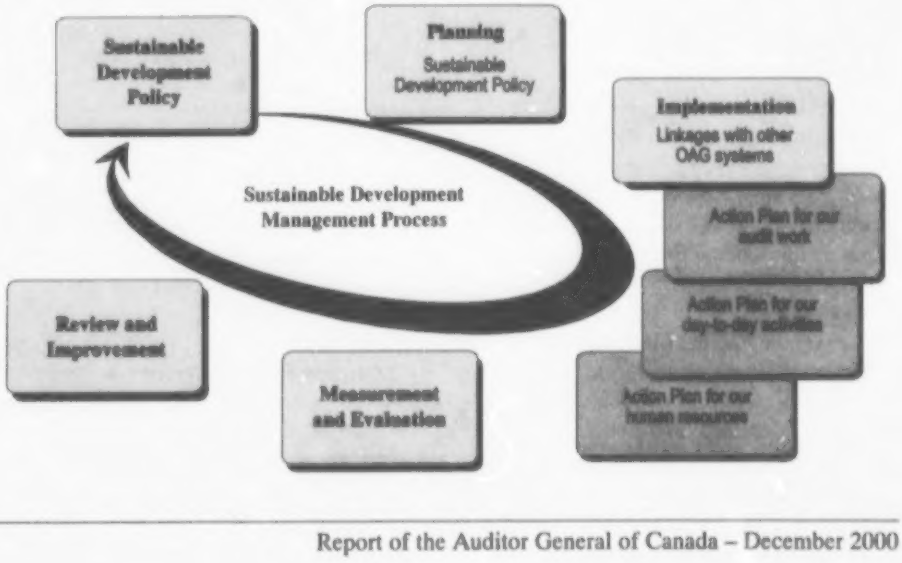
- our audit work, where we aim to encourage departments and others to act on environment and sustainable development issues;
- our day-to-day activities, where we aim to manage our own operations in an environmentally responsible manner; and
- the management of our human resources, where we aim to encourage our staff to behave in ways that contribute to achieving our environmental and sustainable development goal and objectives.

35.42 We identified objectives for each goal, and performance indicators for each objective. At the end of each year, we reviewed our objectives and indicators to ensure that they were still relevant and significant. Each year in our Departmental Performance Report, we reported on our performance as measured by eight key indicators.

35.43 Our first and second strategies both encompass the three core dimensions of our activities: our audit work, our day-to-day activities, and the management of our human resources. Exhibit 35.4 provides examples of specific performance indicators.

Exhibit 35.3

Our Sustainable Development Management Process


Sustainable Development Policy
Planning
Sustainable Development Policy
Implementation
Linkages with other OAG systems
Action Plan for our audit work
Action Plan for our day-to-day activities
Action Plan for our human resources
Sustainable Development Management Process
Review and Improvement
Measurement and Evaluation

35.44 The Office's Sustainable Development Strategy Steering Committee was created to guide the development of our first strategy. It continues to monitor the Office's activities and, based on the performance achieved, to direct any necessary adjustments. It is chaired by a Deputy Auditor General and includes representatives of management in each significant function of the Office. The Secretary of the Steering Committee is the Sustainable Development Co-ordinator. This individual is responsible for leading our sustainable development activities, preparing performance reports and action plans, and leading the Core Working Group.

35.45 The Core Working Group comprises managers and professionals directly involved in audit work, in the Office's day-to-day activities, and in

Exhibit 35.4

Examples of Performance Indicators

Audit work

Percentage of recommendations related to environment and sustainable development on which satisfactory progress was made.

Percentage of federal organizations that comply with appropriate standards of practice for protecting the environment and promoting sustainable development.

Day-to-day activities

Paper consumption per employee.

Human resources

Percentage of audit staff who participated in sustainable development training sessions.

Recycling Centre
Centre de recyclage
240 SPARKS
EDIFICE C.D. HOWE BUILDING

In our day-to-day activities, we use recycling stations for compost and other recyclables (see paragraph 35.41).

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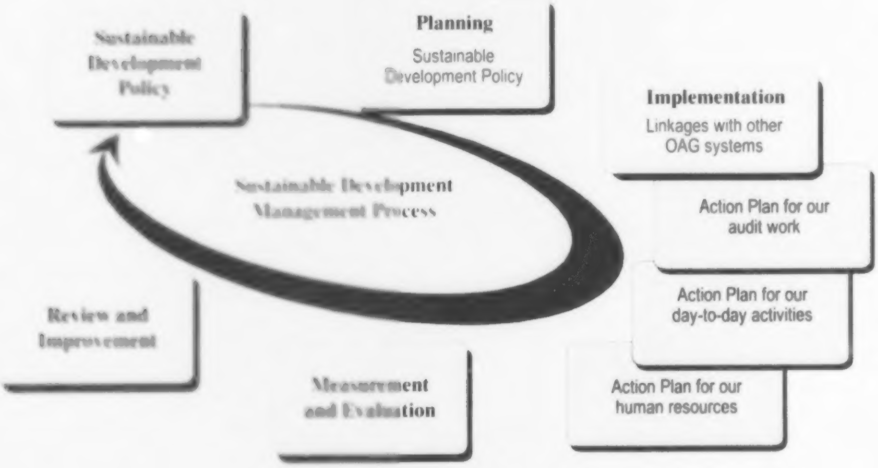
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240 SPARKS
EDIFICE C.D. HOWE BUILDING
DÉCHETS SEULEMENT
GARBAGE ONLY
Compostage
Compost

In our day-to-day activities, we use recycling stations for compost and other recyclables (see paragraph 35.41).

human resources management. This working group monitors performance for each indicator in the strategy and is also responsible for drafting the new strategy.

Employees have created an "Environmental Knowledge Network" to increase awareness and knowledge of environmental and sustainable development issues.

Our performance

35.46 Our contribution toward achieving our goals cannot easily be separated from that of our partners, nor can we measure external changes to the environment and sustainable development. However, we believe that our short- and medium-term objectives and their associated indicators provide a logical link between our activities and the results we aspire to achieve.

35.47 Each year, we have measured our progress against the indicators shown in our first strategy. In addition, during the third year of our strategy we commissioned an external management review of our approach to managing our strategy and our progress to that point.

35.48 Exhibit 35.5 shows our areas of success and areas that will require additional effort. We will address the review's recommendations in implementing our second strategy.

Key recommendations of the management review are addressed in our second strategy.

35.49 The review presented a series of recommendations. Key recommendations are addressed in the section Our Second Strategy (see paragraph 35.59), and are included in Exhibit 35.9. We considered and integrated the review's recommendations related to the indicators for our second strategy. We also prepared an action plan to address longer-term recommendations.

Some performance was not measured

35.50 While performing our annual review of our performance, we recognized several accomplishments that had not been measured as part of the actions or targets in our first strategy.

35.51 We do not track and measure all of the activities we undertake to promote and implement sustainable development. For example, employees with expertise or an interest in environmental and sustainable development issues have created an "Environmental Knowledge Network." They use it to exchange views and hold seminars or discussions that help to increase awareness and knowledge of environmental and sustainable development issues, for themselves and for their colleagues in the Office. Some of the sessions held during the period of the first strategy included Greening the Federal Budget; the Ecological Integrity of National Parks; and Equitable Trade.

35.52 In June 2000, our Office celebrated Canada's Environment Week by holding lunchtime seminars and an "Enviro-Millionaire" quiz, distributing trees for planting, and participating in a Commuter Challenge.

35.53 As a result of our participation, the Office achieved second place in its category in the Commuter Challenge — a national competition to promote environmentally responsible and healthy alternative modes of transportation. We received many positive comments from staff members who had fun while gaining knowledge and increasing their awareness of environmental and sustainable development issues.

What we have learned

35.54 Our experience during the first three years guided us in preparing our next strategy. While we have made good progress and are moving in the right direction, considerable work remains.

35.55 The first lesson we learned was that our original strategy was too complicated. It was not easy for employees to remember our goals. And, like many departments, we had included too many objectives and targets.

35.56 We found it a challenge to fully integrate environmental and sustainable development issues into our audit work. We conducted an internal review of whether the planning of value-for-money audits considered environmental and sustainable development issues. This review provided evidence that we need to continue focussing our efforts in this area while revising our performance measurement. We are changing the way we plan our audits to ensure that these issues are included, but the changes are not yet complete and their results have not been measured.

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Exhibit 35.5

Significant Findings From the Management Review of Our First Sustainable Development Strategy

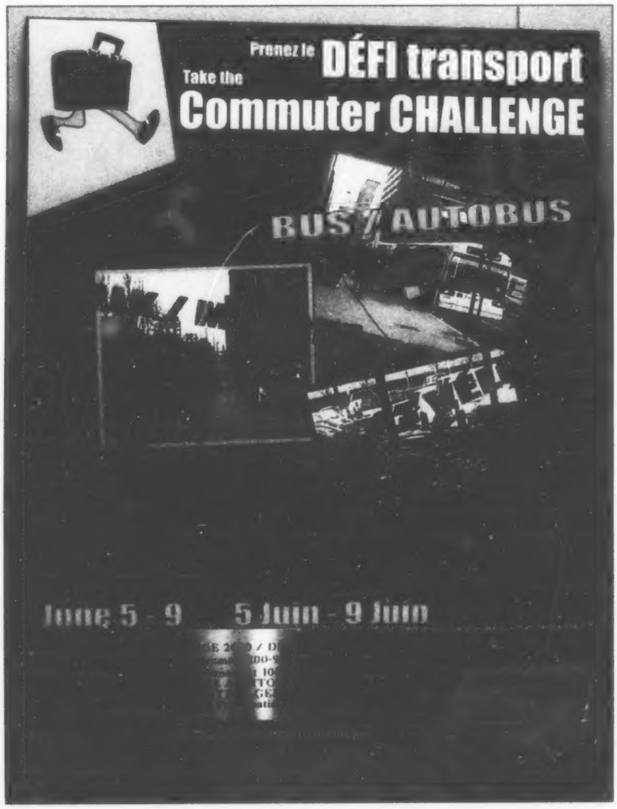
	Successes	Need for Improvement
Audit work	• Significant overall progress in meeting the goals and objectives. Strategy addresses the most significant sustainable development issues faced by the Office. • Many internal procedures changed to integrate environment and sustainable development into planning process for the different products (value-for-money audits, financial audits, and special examinations). • Helped federal organizations strengthen their capacity. • Tracked the petition process.	• Despite a good integration of the environmental component, more work was needed. • Most targets for audit work were not met or had not been set.[1]
Day-to-day activities	• Implemented our Sustainable Development Management Process • Minimized negative environmental impacts of day-to-day activities: reduced paper consumption, promoted integration of significant environmental aspects into building maintenance and refit activities. • Developed a procedure to classify environmental characteristics of regularly stocked consumable products and completed an inventory.	• Did not meet our commitments to green our purchases and encourage the use of environmentally responsible transportation for audit work.
Human resources	• Initiated training and awareness-raising activities related to environment and sustainable development issues. For example, by March 2000, 42 percent of audit staff had attended a session, Introduction to Environment and Sustainable Development. • Completed two EnviroSurveys - questionnaires and self-assessments completed by staff members.	• Progress was not tracked against the environment and sustainable development training plan.

Note: [1] The management review was conducted prior to our year-end report on performance. As in previous years, the final report showed that most targets were met.

Analyzing the reasons for unexpected changes can help in taking quicker corrective action.

35.57 For certain indicators in our first strategy, we found that we could not influence behaviour as we had anticipated. An example is encouraging the use of environmentally responsible transportation for audit work. Encouraging less frequent travel home while on audit assignments does have a beneficial impact on the environment, but detracts from the employee's quality of life. For this reason the indicator was modified for our second strategy.

35.58 Analyzing the reasons for unexpected changes can help in taking quicker corrective action. For example, Exhibit 35.6 shows how we were able to change our approach to reducing paper consumption.



In June 2000, our Office achieved second place in its category in the Commuter Challenge, a national competition to reduce greenhouse gas emissions by promoting healthy alternatives to single-occupant vehicles (see paragraph 35.53).

Our Second Strategy

35.59 Our second strategy consists of a goal, objectives and an action plan. Our goal is the following:

> The Office of the Auditor General is committed to helping the federal government continually improve its management of environmental and sustainable development issues, and to ensuring that its own operations are managed in an environmentally responsible manner.

We will accomplish this goal by working toward objectives that address our audit work, our day-to-day activities and the management of our human resources (see Exhibit 35.2). We will implement our objectives using the action plan shown in Appendix C.

35.60 To design our second strategy, we began by assessing the results of our management review. Then we conducted comprehensive internal consultations, followed by analysis of our first strategy's goals, objectives, measures and indicators, to ensure that our second strategy clearly linked the measures with their intended results. We compared them with measures adopted by similar organizations handling similar issues. For example, we considered a federal government guidance document, *Sustainable Development in Government Operations: A Co-ordinated Approach* (Web site: www.ec.gc.ca). We sought advice from eight parliamentarians and nine departments and agencies; and developed a detailed communication plan for the new strategy. The steps in developing our second strategy are shown in Appendix D.

35.61 Implementing our first strategy included setting up a suitable management system. This was our sustainable development management process

(SDMP), to assign responsibilities and track our progress (see Exhibit 35.3). We will update the SDMP with revisions made for our second strategy.

35.62 In considering the scope of our second strategy, we decided to keep the emphasis on the environmental dimension of sustainable development rather than on the social or economic dimensions. This decision was based on two factors. First, much of our past audit work has concentrated on the economic and social aspects of the government's policies and programs. Second, the Office has other structures in place that address certain aspects of sustainability as it affects our staff, including employment equity, a mentoring program, and a health and safety committee; we did not want to impose another layer of administration on areas that are already managed through other means. Furthermore, the social dimension of sustainable development is still a matter of considerable debate, as shown in Exhibit 35.7.

35.63 We developed our strategy's goal, objectives and performance indicators using internal and external consultations. Our internal consultations were designed with a dual purpose: to inform employees about how well the Office had met the commitments of our first strategy; and to obtain their input toward the design of our second strategy. All groups in the Office were consulted, including each regional office. A summary of the internal consultations is included in Appendix B. In total, about half the employees at all levels attended the consultation sessions.

Exhibit 35.6

Analyzing Reasons for Unexpected Changes

Dealing with an unexpected change — paper consumption

Our original strategy had a target of a five percent reduction in paper consumption for the first year. Results from the first year showed not a decrease but an increase! We traced the difference to a change in work habits. It coincided with the arrival of the Internet at each work station. While there was a decline in the number of photocopies, it was more than offset by an increase in printer activity. Documents that had been purchased or provided by other departments were now being printed. Through increased awareness and by setting printers to automatically print double-sided, we were able to surpass our original goal, albeit over the course of three years instead of one.

Exhibit 35.7

The Social Dimension of Sustainable Development

Human Resources Development Canada's sustainable development strategy explicitly mentioned a lack of understanding of the social dimension of sustainable development. "Efforts to promote sustainable development have focussed on the trade-offs between economic and environmental goals. The other component of sustainable development, the social dimension, is not yet well understood. How can a society best meet its social objectives, such as literacy, equity, dignity, security, and health, in the context of its economic and environmental goals? How do these different objectives affect each other and how can society achieve a balance between them?"

In their first sustainable development strategies, we observed that many departments gave insufficient consideration to the social dimension – even some departments whose mandates focus on social issues. Our Office has touched on the social aspects of sustainable development in previous audits. Chapter 7 of the Commissioner's 1999 Report discusses current thinking on the social aspects of sustainable development by both private and public sector organizations of other countries.

One of our challenges is to include the social dimension more frequently, wherever appropriate, when planning audits and conducting reviews of sustainable development strategies. A report on a study examining the social dimension of sustainable development is planned for the Commissioner's May 2001 Report.

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One of our challenges is to include the social dimension more frequently, wherever appropriate, when planning audits and conducting reviews of sustainable development strategies. A report on a study examining the social dimension of sustainable development is planned for the Commissioner's May 2001 Report.

As part of our external consultations, we received advice and comments from the Panel of Environmental Advisors to the Commissioner for the Environment and Sustainable Development and from departments and agencies.

Updating our strategy and our performance framework

Compared with our first strategy, our second strategy presents a more focussed approach.

35.64 Compared with our first strategy, our second strategy presents a more focussed approach. For example, we have simplified our framework to include a single goal that can be remembered easily (see Exhibit 35.2). This goal will be applied in each of our primary work areas — audit work, day-to-day activities and human resources. In each of these areas we show a link between the goal and the specific objectives.

35.65 We have kept the basic framework of our first strategy, covering our audit work, our day-to-day activities and the management of our human resources.

35.66 For our second strategy, we reduced the number of objectives and indicators in each of these areas (see Exhibit 35.8), and focussed them in a logical way that links activities to the objectives. The result will be fewer objectives and indicators but they will be more meaningful. We also lowered certain targets in our second strategy in areas where we had been too optimistic.

Exhibit 35.8

Streamlining Our Second Strategy

Component	Original Strategy	Second Strategy
Goal	5	1
Objectives	12	7
Indicators	38	26

Selecting the right combination of objectives/activities/indicators/targets

35.67 In our second strategy, we explicitly commit to helping the federal government continually improve its management of environmental and sustainable development issues and to ensuring that we manage our own operations in an environmentally responsible manner. The choice of objectives, and of subsequent activities, indicators and targets, reflects our priorities, the impact of our activities on the environment, and the balance we seek among our various functions and activities.

35.68 To fulfil our commitment and to turn our objectives into action, we have developed the action plan that is presented in Appendix C. It highlights the links between our sustainable development goal and objectives (planned longer-term results), the activities needed to achieve those objectives, and the results expected in the near future, measured by performance indicators. Responsibilities for carrying out each action and for monitoring progress are assigned to specific individuals in the Office, under our sustainable development management process.

35.69 The potential significance of our audit work is reflected in our objectives and action plan. The primary impact we hope to make on the environment and sustainable development through our audit work is in providing information to parliamentarians and others that, in turn, can influence the activities of federal organizations and others. Although the negative effects of our day-to-day operations on the environment are not significant compared with those of many departments, minimizing them is still an important part of an overall strategy.

35.70 The indicators we have selected will help us monitor our progress toward our goal and objectives. We have chosen them for a range of purposes — some are included to promote change; others to ensure that we maintain our current performance; and the rest are to track the results of some activities whose outcomes we do not directly control.

Linking our sustainable development action plan to other activities in the Office

35.71 We use three primary methods to link our action plan to other activities in the Office (for example, the Health and Safety Committee). First, the framework we have chosen for our action plan ensures that it is well integrated with the structure of the Office. Second, there is a cross-membership between the SDS Steering Committee and other committees in the Office, and members of the Core Working Group are managers who can control the changes that need to be made. Finally, senior management exercises an oversight role through the Office's Executive Committee.

We have selected indicators to promote change and to track activities whose outcomes we do not directly control.

Exhibit 35.9

Key Recommendations of the Management Review

	Recommendations	Action
Audit work	• A more strategic and transparent process should be established for the identification of high-risk environmental and sustainable development issues by, among other things, providing stronger guidance to audit teams.	• Managers with environmental expertise have begun to provide advice to audit teams on potential environmental issues that could exist for that entity.
	• There should be an increased transfer of sustainable development knowledge and expertise across the Office.	
	• The assignment of responsibility for environmental and sustainable development practice development initiatives should be clarified and the specific actions better defined.	• To be implemented by March 2001.
	• Performance targets should be considered for audits or studies targeted at the "social" dimensions of sustainable development. This could potentially involve departments not currently seen as high-risk from an environmental and sustainable development perspective, and would reflect the direction currently being provided to departments to address the social dimensions of sustainable development in their strategy.	• Will be considered after the present study on the social dimension of sustainable development is tabled in May 2001.
Day-to-day activities	• The performance indicators selected for "greening" the Office's purchases should be aligned with the newly developed green rating system developed by the procurement section.	• Implemented – included in the design of our second strategy.
Human resources	• The environmental and sustainable development training plan should be updated annually.	• Implemented – included in the design of our second strategy.

Our main challenge is still to further integrate environmental and sustainable development issues into our audit work.

Issues associated with our three core activities

35.72 The management review presented a summary of the issues that we needed to consider in preparing our second strategy. The key recommendations of this review are shown in Exhibit 35.9, along with the actions we propose.

Specific issues that will require additional attention during the next three years

35.73 **In our audit work.** Our main challenge is still to further integrate environmental and sustainable development issues into our audit work. We expect that our planned actions will provide for a more integrated approach to our audits.

35.74 We also need to pay more attention to horizontal issues that cut across departmental mandates or across political jurisdictions. We have not yet developed a means of working with other jurisdictions to audit environmental commitments that transcend national borders.

We will work with departments and others to ensure that we achieve our mutual objectives.

35.75 **In our day-to-day activities.** During the next three years, we will undergo a major refit of our National Capital Region office. We are encouraged by the support provided by Public Works and Government Services Canada, the department responsible for the refit. We will require that all aspects of the project be carried out in an environmentally responsible manner and we hope the refit can serve as a model for renovating other government offices.

35.76 **In managing human resources.** Our challenge will be to update and complete the implementation of an appropriate training plan while continuing to inform and train staff and management on the issues of the environment and sustainable development. We must ensure that our internal policies are in keeping with our sustainable development objectives. For example, during the period of the first strategy we eliminated the parking subsidy received by management, as it was not in keeping with our values for sustainable development.

Working with others

35.77 Throughout the implementation of our second strategy, we will work with departments and others to ensure that we achieve our mutual objectives. We will share information and experience so that we, along with our partners in Canada and internationally, can benefit from new ideas and make further progress in our understanding and application of sustainable development solutions.

35.78 We will work with Public Works and Government Services Canada to improve our operations — whether reducing energy or improving monitoring of our waste.

On the path toward sustainable development

35.79 We do not expect that we will reach our goal within the next three years, but we are confident that during the term covered by this strategy, we will move forward in our journey toward sustainable development. We are moving in the right direction, and this strategy will help to sustain our progress.

Appendix A

Strategy Team

Deputy Auditor General: Michael J. McLaughlin
Sustainable Development Co-ordinator: Gordon Stock

Core Working Group

Paul Fowlow
Rita Gudziunas-Mankowski
Kathleen Hobbs
Julie Pelletier
Art Routliffe
Gordon Stock

For information, please contact Gordon Stock.

Appendix B

Internal Consultations Summary: June and July 2000

The purpose of the consultation sessions was to inform employees about the Office's performance in fulfilling the commitments made in its first Sustainable Development Strategy (SDS) and to obtain their input for the development of the second SDS, due to be tabled in December 2000 if Parliament were sitting. All Office groups, including each regional office, were consulted between 9 June and 14 July 2000. About 50 percent of Office employees at all levels attended the consultation sessions.

In order to obtain their input on the development of the new SDS, employees were asked to form small groups and provide recommendations for the following questions:

- **General – organization:** How can the Office help Canada improve in future years?
- **General – individuals:** As Office employees, how can we contribute individually?
- **Audit work:** How can we improve our products with regard to the environment and sustainable development?
- **Our people:** What can we do to ensure that our people have the right skills to identify and apply environmental and sustainable development considerations?
- **Our day-to-day activities:** How can we improve our activities and be a model organization from a social and environmental point of view?

It should be noted that while we asked each group to challenge the overall framework of the existing strategy (audit work; day-to-day activities; and human resources) if they thought it should be amended, they did not challenge it. We cannot include all of the suggestions in our second strategy, but they will be used for future reference. Since the consultations, we have communicated with employees to let them know the results.

Appendix C

2001-04 Action Plan for Sustainable Development

For Our Audit Work

Sustainable development objectives	Activities	Performance indicators	Targets/Baseline
Objective 1: To incorporate environment and sustainable development (E & SD) as an integral part of our audit work (DAG Audit Operations Branch)	**Incorporate E & SD in our audit work**	**Incorporate E & SD in our audit work**	
	• Improve consideration given to E & SD issues during audit planning phase • Consider undertaking joint audits with auditors from other jurisdictions when E & SD issues reach beyond the federal government's mandate • Consider the development of E & SD practice guides	• % of audit planning documents that considered E & SD issues	Target: 75% by 2002, 90% by 2004
		√ % of audit planning documents that found E & SD issues to be significant [1]	Target: 20% by 2004 Baseline to be established in 2000-01
	E & SD outputs from the Office	**E & SD outputs from the Office**	
	• Assess nature of E & SD work done for Office products (e.g., financial audits, special examinations of Crown corporations, value-for-money (VFM) audits and studies and review of Sustainable Development Strategies - SDS)	• Expenditures on E & SD audit products as % of total audit costs	Target: 20% by 2004 (17% in 1998-99)
		√ % of chapters and % of special examinations that integrated E & SD issues	Target: Chapters – 30% (26% in 1998-99); special examinations – Baseline to be established in 2000-01
	• Practice Review should determine whether E & SD issues were integrated in VFM chapters and special examinations according to audit plans - or, where changes have occurred, that they were appropriately documented (update VFM manual to reflect this)	• % of recommendations and observations related to E & SD (VFM chapters and special examinations)	Target: 30% (31% in 1999-2000 for VFM only)
		Monitor and report on the implementation of departmental Sustainable Development Strategy Completeness of departments' and agencies' SDS	
		• % of departments and agencies SDS that follow guidance provided by Treasury Board Secretariat and Commissioner of the Environment and Sustainable Development (CESD)	Target: 100% by 2004 [2]
		√ % of actions planned that have been implemented	Target: 50% by 2004 [2]

√ **Key performance indicators.** We will report annually on our performance on key indicators in our Performance Report. Other indicators are reported internally to management.

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[1] Performance measurement using this indicator is being revised.

[2] Achievement of these targets depends mostly on the performance of departments and agencies; we view these targets as expectations.

Sustainable development objectives	Activities	Performance indicators	Targets/Baseline
Objective 1 (Cont'd)		**Impacts on parliamentarians** *Tracking of references to Office work* √ Number of parliamentary committee hearings on E & SD issues using our reports (committee hearings where there were Office witnesses)	Target: Tracking only - Baseline: 8 of 31 hearings in 1999-2000
		Impacts on entities *Acceptance of and progress on recommendations leading to better practice* √ % of recommendations related to E & SD where entities agreed with our recommendations and satisfactory progress was made	Target: 65%[3] by 2004 - Baseline: 42% in 1999-2000
		Impacts on the public *Media coverage* • % of media coverage of E & SD issues	Target: Tracking only Baseline: 29% in 1998-99
		Visits on Office Web site, etc. • % of Office Web site activity related to E & SD	Target: 25% by 2004 Baseline: 18% in 1997-98
Objective 2: To help strengthen the capacity of federal, territorial and international organizations to continually improve their management of E & SD issues and delivery of related programs (Office senior management)	**Outputs from the Office** • Prepare audits, studies development of tools such as better practice guides • Participate in international forum	**Outputs from the Office** • Number of presentations on E & SD issues at external events (this indicator is also listed under human resources)	Target: To be determined Baseline to be established in 2001-02
		Assessment of departmental capacity to manage E & SD issues √ % of federal organizations that conform with appropriate standards of practice for protecting the environment and promoting sustainable development	Target: 75%[3] by 2004 Baseline: 50% in 1999-2000
Objective 3: To monitor the replies by departments to letters (petitions) presented by Canadians about environmental and sustainable development concerns (Commissioner's Office)	**Petition (letters) process** • Promote the existence of the petition process • Monitor type of petitions received • Monitor the replies by departments to petitions • Report petition activity	**Petition (letters) process** • Number of petitions received by CESD	Target: Tracking only
		• % where departments responded within prescribed time frame	Target: Tracking only

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[3] Certain targets that were set in our 1999-2000 Report on Plans and Priorities have been reduced because we found the original targets too optimistic.

For Our Day-to-Day Activities

Sustainable development objectives	Actvities to achieve these objectives	Performance indicators	Targets/Baseline
Objective 1: To continually improve our Sustainable Development Management Process (SDMP) (Corporate Services Branch)	**Monitor the delivery of the SDMP** **Identify non-conformance and implement corrective actions** **Update/improve SDMP annually**	**Review and Corrective Actions** • Number of internal and external reviews	Target: One external review by 2004 and an internal review every year
Objective 2: To reduce consumption and waste (Corporate Services Branch)	**Paper consumption** • Provide information and promote alternatives such as electronic filing **Reducing consumption and waste** With our employees: • Identify waste reduction opportunities • Promote reuse of materials • Develop an awareness program for employees With Public Works and Government Services Canada (PWGSC): • Conduct waste audit that provides information on Office performance • Implement a waste reduction action plan • Promote a more environmentally friendly facilities	**Paper consumed** √ Total consumption of paper per employee per year **Reducing waste** • Portion of solid waste diverted from landfill **Reducing consumption** √ Dollar value of consumable supplies (excludes furniture and equipment) per employee	Target: 2% reduction each year Baseline: 8,842 sheets - three-year average 1997-98 - 1999-2000 Target: To be determined Baseline to be established by 2001-02 Target: To be determined Baseline to be established by 2001-02
Objective 3: To purchase, provide and use goods and services in an environmentally responsible manner (Corporate Services Branch)	**Goods and services** • Update Office procurement policy to include environmental component **Practices and behaviors** • Promote use of teleconferencing, videoconferencing and Web-based communications **Work in co-operation with PWGSC** • Promote and monitor purchase of environmentally friendly goods and services during building refit	**Goods and services** • % of stocked goods (office supplies) that have environmentally responsible characteristics • % of contracts where environmentally responsible considerations were included in the decision-making criteria	Target: 2% annual increase Baseline: 26% at end of 1999 -2000 Target: To be determined Baseline to be established in 2001-02

For Our Human Resources

Sustainable development objective	Activities to achieve these objectives	Performance indicators	Targets/Baseline
Objective: To enhance the awareness and capability of Office staff to promote E & SD issues in their audit work, the Office's day-to-day operations and society at large (Corporate Services Branch)	**Support and guidance**	**Support and guidance**	
	• Provide sources of information, including the development of E & SD practice guides • Promote E & SD consultation services within the Office (by E & SD functional responsibility leader within the Office, including the Commissioner's office)	• Number of practice guides developed	Target: To be determined Baseline to be established in 2000-01
	Increase environmental knowledge and awareness	**Increase environmental knowledge and awareness**	
	• Assess needs to be met and update and implement training plan for audit staff, including new employees	√ Number of learning events held that relate to E & SD awareness and training (formal and others)	Target: 7 per year
	• Provide appropriate, timely professional development courses	• % of audit staff who participated in SD audit training sessions	Target: 50%[3] by 2004 - Baseline 42% in 99-00
	• Develop an action plan for E & SD related activities for the benefit of all Office personnel (e.g., general E & SD information provided and circulated, sessions, green tips - green intranet news, activities of the Environmental Knowledge Network information sessions, Environment week, etc.)	• Number of presentations on E & SD isues at external events (this indicator is also participated in SD audit training sessions	Target: To be determined Baseline to be established by 2001-02
		EnviroSurvey, self-assessment of:	
	• Encourage staff assignments between CESD and audit operations	√ Ability to recognize SD-related audit issues	Target: To be determined Baseline to be established in 2001-02
	Staff leadership		
	• Consider establishing an Auditor General Green Award to recognize employees who help promote E & SD	• % of employees who consider themselves to be actively committed in terms of environmentally sound behaviour	Target: Tracking only Baseline: 49% in 1999-2000, July 1999 EnviroSurvey

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[3] Certain targets that were set in our 1999-2000 Report on Plans and Priorities have been reduced because we found the original targets too optimistic.

Appendix D

Steps in Developing Our Second Strategy

Month/2000	Step
April and May	Contracted external consultant to perform management review to: • assess the extent to which the OAG has been successful in achieving its SDS objectives in audit work, administration, and human resources; • assess the SD management framework as it pertains to performance related issues; • provide advice and guidance on how the OAG should proceed with the update of its SDS; and • review the procedures for integrating environment and sustainable development (E & SD) issues into the audit planning process.
June	Analyzed existing framework, including goals, objectives, and performance indicators, concentrating on whether they were still relevant and significant, whether there were logical links between the measures and the objectives, whether there was a good balance of measures spanning the spectrum of inputs to results, and whether we had eliminated duplication of measurement among indicators.
June and July	Conducted internal consultations, providing information on how we performed against objectives in our first strategy and eliciting ideas for our second strategy. For further details, see Appendix D.
July	Conducted external consultations with Commissioner's Panel of Environmental Advisors.
August	Drafted the goal and objectives for our second strategy.
September	Drafted the action plan for our second strategy.
October	Conducted external consultations with 8 parliamentarians and 9 departments and agencies.
October and November	Drafted and completed the Sustainable Development Strategy document.

Report of the
Auditor General of Canada to the House of Commons – 2000
Table of Contents

Volume 1 – April 2000

Chapter

Foreword and Main Points

1 Service Quality

2 Human Resources Development Canada – Service Quality at the Local Level

3 Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

4 Indian and Northern Affairs Canada – Elementary and Secondary Education

Chapters 5 & 6

5 Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry

6 Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development

7 Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community

8 Department of Finance – Managing Canada's Debt: Facing New Challenges

9 Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

Volume 2 – October 2000

Chapter

Foreword and Main Points

10 Transport Canada – Airport Transfers: National Airports System

11 Human Resources Development Canada – Grants and Contributions

12 Values and Ethics in the Federal Public Sector

13 Assessment of Financial Management Capabilities in Departments

14 Canadian International Development Agency – Managing Contracts and Contribution Agreements

Volume 2 – October 2000 (cont'd)

Chapter

15 Health Canada – First Nations Health: Follow-up

Other Observations
16 Follow-up of Recommendations in Previous Reports
17 Other Audit Observations

Volume 3 – December 2000

Chapter

Matters of Special Importance – 2000
Foreword and Main Points

18 Governance of Crown Corporations

19 Reporting Performance to Parliament: Progress Too Slow

20 Managing Departments for Results and Managing Horizontal Issues for Results

21 Post-Secondary Recruitment Program of the Federal Public Service

22 Development of the Universal Classification Standard: A Follow-up

23 Information Technology: Acquisition of Goods and Services

Protecting Health and Safety
24 Federal Health and Safety Regulatory Programs
25 Canadian Food Inspection Agency – Food Inspection Programs
26 Health Canada – Regulatory Regime of Biologics
27 Canadian Nuclear Safety Commission – Power Reactor Regulation
28 Follow-up of Previous Recommendations on Health and Safety Regulatory Programs

29 Treasury Board Secretariat – The Government's Annual Contracting Activity Report – 1998

30 Fisheries and Oceans – The Effects of Salmon Farming in British Columbia on the Management of Wild Salmon Stocks

31 Fisheries and Oceans – Fleet Management

32 National Defence – Defence Support Productivity: A Progress Report

Other Observations and Appendices
33 Follow-up of Recommendations in Previous Reports
34 Other Audit Observations

35 Sustainable Development Strategy for the Office of the Auditor General